AIRCRAFT ENGINES
PRODUCTION COSTS AND PROFITS

UNIVERSITY OF MICHIGAN
SEP 23 ..1
MAIN READING ROOM

HEARINGS

BEFORE THE

SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH CONGRESS

FIRST SESSION

UNDER THE AUTHORITY OF

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HEARINGS HELD JULY 18, 19, 20, AND AUGUST 14, 1957

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AIRCRAFT ENGINES PRODUCTION COSTS AND PROFITS

THURSDAY, JULY 18, 1957

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS,
Washington, D.C.

The subcommittee met at 10 a. m., Hon. F. Edward Hébert, chairman of the subcommittee, presiding with the following members present: Messrs. Rivers, Gavin, Cunningham, Miller, Bates, and Osmers.

Mr. HÉBERT. The committee will be in order.

Members of the committee, as you know, this subcommittee has been assigned the duty of studying the figures on cost of production and the profit being realized on Government contracts for the production of aircraft engines (both reciprocating and jet) which find their way into the inventory of the Air Force and the Navy.

Fifteen questionnaires have been addressed to the principal producers. Each has responded to the requests of the subcommittee for specific information.

For the assistance of the members, those responses have been assembled in a committee document, which is Subcommittee Proceeding No. 4, and commences with page 701 of the subcommittee's proceedings for this session. This document is in the hands of the subcommittee and other authorized personnel. Informal discussions have been had with many of the companies, at their request, to discuss material presented and to eliminate any possible misunderstanding as to what was required.

The questionnaire of the subcommittee was broken into two parts; specific questions relating directly to Government contracts and general questions relating to the business of the company as a whole. The purpose of the latter was, of course, to determine what influence its relationship with the Government had upon the financial position of the company. Some part of this becomes important because of the large amount of Government capital advanced in the form of tools and plants. That, however, is only one facet of that particular subject. The Government capital must likewise be viewed in the light of the returns achieved by private capital when used with Government investment.

For the sake of emphasis, I want to again repeat the previous paragraph which I just read, and as we develop the hearing it will become apparent why I repeat it.

The questionnaire of the subcommittee was broken into two parts; specific questions relating directly to Government contracts—and I again emphasize the second half of that sentence—and general ques-

tions relating to the business of the company as a whole. The purpose of the latter was, of course, to determine what influence its relationship with the Government had upon the financial position of the company.

In proceeding with this inquiry, we will follow the format established in the questionnaire in developing items of cost, and in determining from those figures the rate of profit being achieved.

I want to make it clear, at the beginning, that this inquiry is not in any sense a punitive or a fishing expedition. It is intended to ascertain the relationship between Government and contractor and to review the contracting procedures of the Government for the purpose of ascertaining the facts upon which an opinion may be formed as to the soundness of the program.

I want to emphasize, also, that the committee has no preconceived opinions on the subject, but will painstakingly review the evidence for the purpose of forming its conclusions for the information of the Congress and the public. The contracts about which we will inquire are production contracts in varying quantities for reciprocating and jet engines. We have taken cognizance of research and development contracts, also. But it is production contracts with which we are directly concerned in a consideration of cost and profits in the conventional sense.

I want to say, too, that there is no significance whatsoever in the order of appearance of the companies selected to present this subject. There are 15 companies—one must be first and another must be last. It was our thought, however, those companies having the largest number of contracts and where the greatest amount of Government money is involved should properly receive the first attention of the subcommittee.

I ask your patience and understanding of the purpose of the subcommittee and of what may be the labor of going through this financial data, which, I assure you, is very tedious.

We shall follow the procedure which we have employed in previous hearings of this general nature. Counsel for the subcommittee will open the questioning for the purpose of laying open the contents of the questionnaires and other pertinent data for the information of the committee as a preliminary to questions that may be asked by the members.

Elaborating and supplementing the last statement, the last paragraph, the Chair wishes to ask the cooperation of the members of the subcommittee in connection with the conduct of the inquiry of the witness. The committee will recall that during the last session, in the so-called airframe-industry hearing, we conducted morning and afternoon hearings for several weeks. The procedure was accepted both by the Department and industry as a fair and adequate manner of conduct. The Chair shall attempt to conduct this hearing in the same manner.

Following the statement of each individual witness representing each particular company, during which time the witness will be allowed to present any testimony he desires, elaborate or supplement any statement he cares to make and discuss his position to his full satisfaction—after the witness has finished, Mr. John Courtney, the counsel for the committee, will then make his inquiries. After which the chairman shall recognize the members of the committee, alternat-

ing between the majority and the minority Representatives, as usual.

Until the witness has concluded his testimony and until Mr. Courtney has finished his examination, the Chair will not recognize any member of the subcommittee for any questions, in order that we might expedite the hearing.

As to the length of the hearings, we shall attempt to conclude as quickly as possible. We shall have hearings every morning at 10 o'clock, with the exception of Saturday and Sunday, until concluded, and whenever possible, that the business of the House allows us to meet, or that we are able to obtain permission to meet, we shall meet in the afternoons at 2 o'clock.

The afternoon sessions, however, are not positive at this time, but the morning sessions are.

Mr. Courtney, your first witness.

Mr. COURTNEY. Mr. Chairman, as a preliminary, I should like to introduce into the record and make available for discussion and inquiry pages 705 to 1224 of the Subcommittee Proceedings No. 4, under date of July 8, 1957.

Mr. Chairman, those pages contain the responses of the Curtiss-Wright—Wright aeronautical division of Curtiss-Wright Corp., to the subcommittee's questionnaire. The questionnaire is reproduced in whole in the beginning of the print, on page numbered 701.

Mr. Chairman, the Curtiss-Wright Corp. representatives are here. Reading in order from left to right as they face you, we have Mr. Edmund P. Aldous, administrative assistant to the comptroller of the Wright aeronautical division, Curtiss-Wright.

Mr. Nicholas Dykstra, vice president; Mr. George R. Hill, vice president for finance; and Mr. Roy T. Hurley, chairman of the board and president.

Now, Mr. Chairman, Mr. Hurley has a prepared statement which covers the general subjects raised in the questionnaire. You may proceed in order, Mr. Hurley.

STATEMENT OF ROY T. HURLEY, CHAIRMAN OF THE BOARD AND PRESIDENT, WRIGHT AERONAUTICAL DIVISION, CURTISS-WRIGHT CORP., NICHOLAS DYKSTRA, VICE PRESIDENT, GEORGE R. HILL, VICE PRESIDENT FOR FINANCE; AND EDMUND P. ALDOUS, ADMINISTRATIVE ASSISTANT TO THE COMPTROLLER

Mr. HURLEY. Thank you.

We have presented to the Subcommitte for Special Investigations the data concerning our military aircraft engine business. It is a long report, approximately 500 pages.

In reviewing this data for Curtiss-Wright, I ask that we keep in mind that over 65 percent of Curtiss-Wright's earnings is now coming from nondefense business.

Military aircraft engine business has not been too satisfactory for Curtiss-Wright, principally for two reasons.

1. It is a feast or famine production with major upsets periodically for both the employee——

Mr. HÉBERT. Mr. Hurley, may I interrupt you? You perhaps have copies of the statement you are reading for benefit of the members of the committee?

Mr. FOGO. We distributed that.

Mr. GAVIN. He has a statement he is reading.

Mr. FOGO. Isn't it in here?

Mr. HURLEY. Yes, sir.

Mr. COURTNEY. It is in the printed booklet in front of the members.

Mr. HÉBERT. Wait a minute. Where is it?

Oh, I see, this is done in the best Madison Avenue style. I just got confused there.

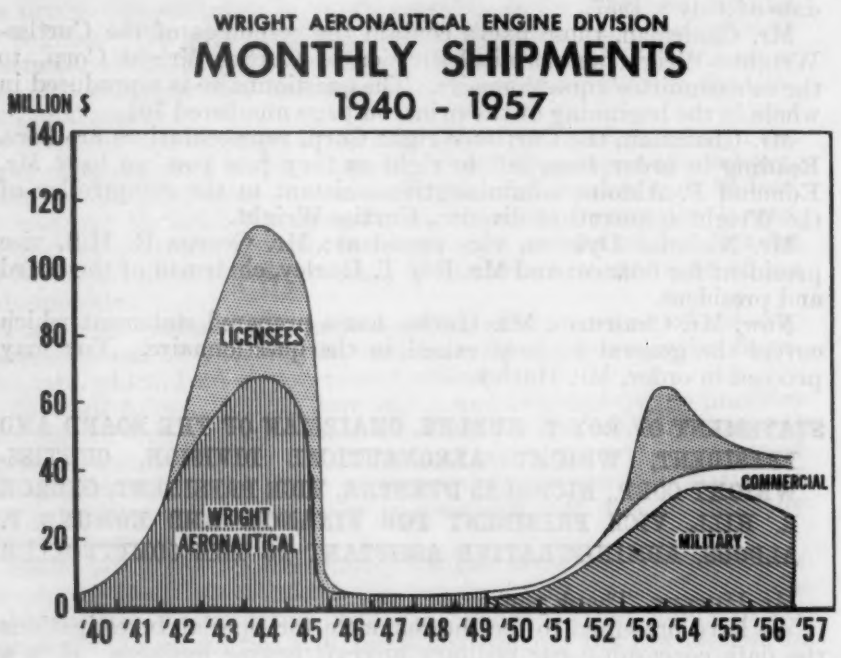
All right, Mr. Hurley.

Mr. HURLEY. All right. No. 2, procurement regulations tend to eliminate competition, create vested interests, and retard engine development.

Chart A shows the experience of Wright aeronautical division in expanding their military engine production for the period from 1940 to date.

(Chart A follows:)

CHART A



Mr. HURLEY. Mr. Chairman, I came from the automobile business to Curtiss-Wright, and in Detroit I had heard many stories about the great production of engines by the automobile industry and the poor production record of the aircraft companies. So the first thing I did in coming to Curtiss-Wright was to make this plot. It discloses that the aircraft companies did the big part of the job.

It also discloses this dropoff that the aircraft company was subjected to in a period in which about 18 of every 20 employees had to be discharged. In taking over in 1949, I made a personal commitment

to the employees of the company that we would expand our commercial business and we would try to avoid getting in this spot again.

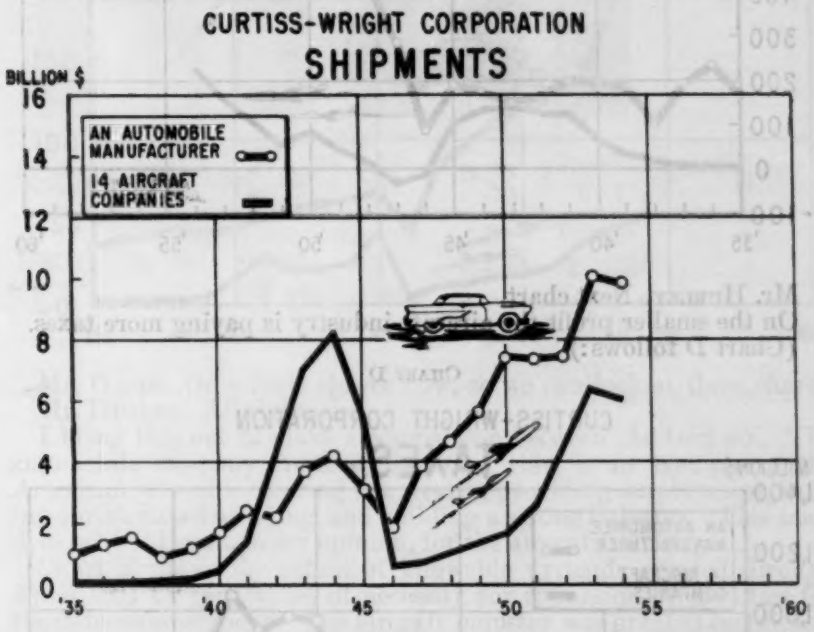
Here we come into the Korean episode, when we expand again. And again you will see that the aircraft company has to carry the brunt of the load and the licensees a small part of the load.

The company, after a period of austerity, is expected to expand rapidly and license its products to nonaviation engine companies, who remain in the business to compete under conditions that penalize the aircraft engine builder.

Chart B compares the production expansion of 14 aircraft companies and a major automobile company for the period from 1935 to 1954. You will note the uniform increase in shipments for the automobile manufacturers and the feast and famine experience of the aircraft companies.

(Chart B follows:)

CHART B



Mr. HURLEY. Now this is one of the studies I made when I went there. Here is an automobile company. The war comes along and they expand, maybe twice. And they continue expanding. Here are the aircraft companies expanding from here to here, maybe 15 or 16 times.

Now if you ask the steel industry or the oil industry or the copper industry to make that expansion, it will create quite a problem. You will note that they go back down again, to almost this level.

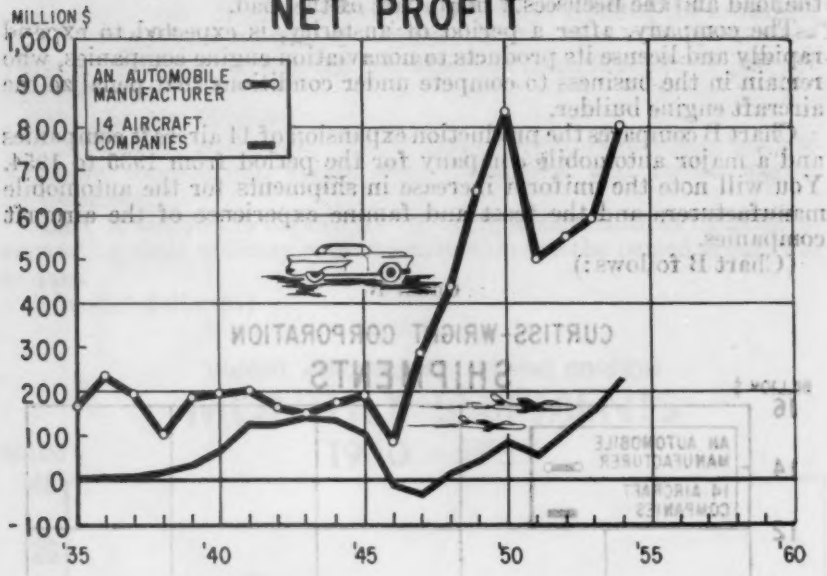
If you will keep the difference between these two shipments in mind, I would like to show you the other elements of that business. Here is a profit. On a small volume of business the automobile company is allowed a larger profit.

(Chart C follows:)

CHART C

CURTISS-WRIGHT CORPORATION

NET PROFIT



Mr. HURLEY. Next chart.

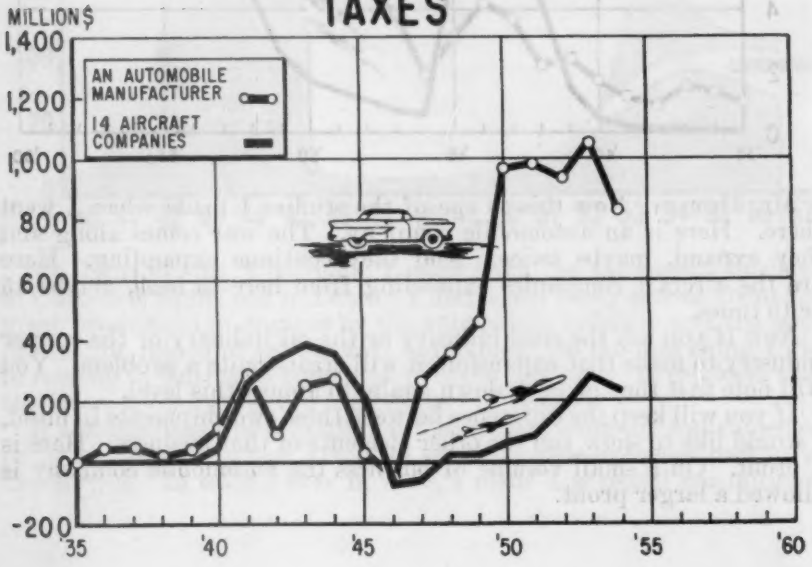
On the smaller profit the aircraft industry is paying more taxes.

(Chart D follows:)

CHART D

CURTISS-WRIGHT CORPORATION

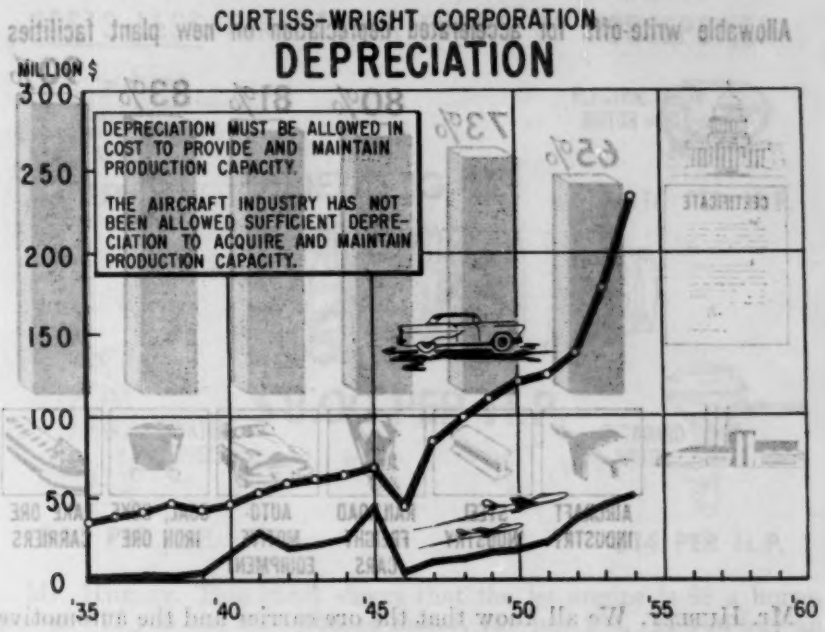
TAXES



Mr. HURLEY. And under depreciation, again the automobile company under procurement regulations enjoys almost double the depreciation allowed the aircraft companies.

(Chart E follows:)

CHART E



Mr. GAVIN. Go a little slower now, so we can look at these charts.

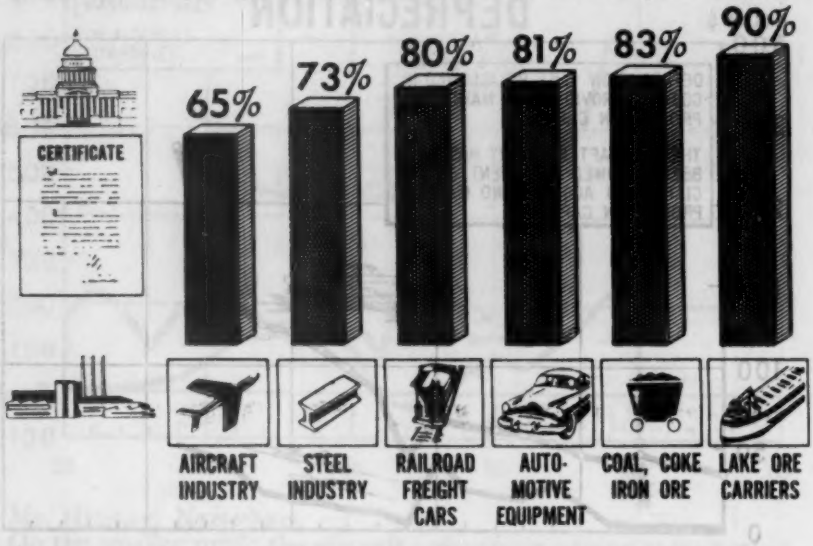
Mr. HURLEY. All right, sir.

I bring this out to make a comparison between the two, sir. The automobile company from my point of view is an example of the American way of increasing our wealth, providing employment, raising our standard of living, and building a strong industry. This same does not hold good, in my opinion, for the aircraft industry.

Chart F shows the extent of allowable writeoffs granted through April 1951 by certificates of necessity for expansion of facilities for the defense emergency. The aircraft industry was granted certificates of necessity for only 65 percent of its investment despite limited post-emergency use while ore carriers were granted a 90-percent rate.

(Chart F follows:)

CHART F



Mr. HURLEY. We all know that the ore carrier and the automotive equipment and the freight cars are going to be used for 20 or 30 years. Yet here are the allowances they got for certificates. The aircraft industry got 65 percent. We all know what was allowed back there is already obsolete.

Mr. RIVERS. You are going to tell us the reason for that?

Mr. HURLEY. Procurement regulations, is all I am blaming it on, sir. They are complex, involved, and you will find that you can move, and the thing doesn't happen. We have certificates pending now for machine tools that we bought that will be obsolete in 2 or 3 years.

Mr. RIVERS. I recognize, Mr. Chairman, that you said the witness will first finish. But on those questions, I didn't know whether it was the basic internal revenue statutes or they are the war powers of the President.

Mr. HÉBERT. I think, Mr. Rivers, in order that the witness be allowed to continue, those questions should be asked after he finishes. He will have them then fully developed. Continue, Mr. Hurley.

Mr. HURLEY. Chart G is interesting and it demonstrates that the cost of the horsepower as purchased by the Government in a Curtiss-Wright J–65 aircraft engine is less than the cost of a horsepower as purchased in the commercial world.

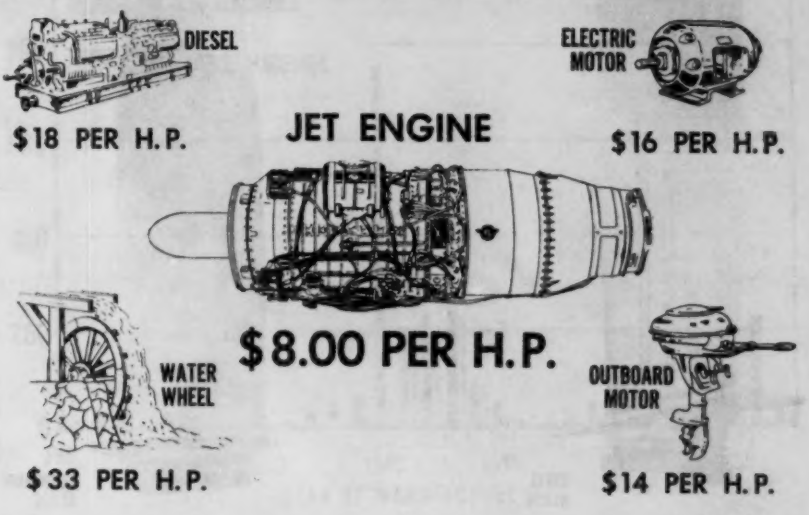
(Chart G follows:)

CHART G

CURTISS-WRIGHT CORPORATION

AIRCRAFT HORSEPOWER

COSTS LESS THAN OTHER FORMS OF HORSEPOWER



Mr. HURLEY. This chart shows that the jet engine is $8 a horsepower. If you buy an outboard motor, you pay $14. If you buy an electric motor, you pay $16. If you buy a diesel engine, you pay $18.

As a matter of interest, we put a water wheel at $33. It is the cheapest form of horsepower you can purchase, sir, with one exception, and that is the Ford, Plymouth, and Chevrolet engines for those cars.

Mr. RIVERS. In that order?

Mr. HURLEY. No, sir; I don't guarantee that.

Mr. HÉBERT. Continue, Mr. Hurley.

Mr. HURLEY. The philosophy of the management of Curtiss-Wright Corp. is to improve quality, decrease costs, decrease prices, and increase profits wherever and whenever possible. A good example of this is the two blades for a jet engine in illustration H. The still blade costs $15. The blade from the new Curtiss-Wright Zephyr engine was $7. This blade has superior qualities and we have illustrated one that has sustained substantial foreign object damage and still performed to satisfaction.

(Illustration H follows:)

ILLUSTRATION H

Mr. HURLEY. The American taxpayer should not be encouraged to expect a tax reduction by a reduction in profits on military contracts. For Curtiss-Wright, such profits average about 3¾ percent of sales. Substantial savings can be made, however, by reducing the cost of product sold. For Curtiss-Wright this cost averages about 96¼ percent of the price of the engine. A 5-percent reduction of this amount would be a greater saving for the taxpayer than completely eliminating all profits on military business.

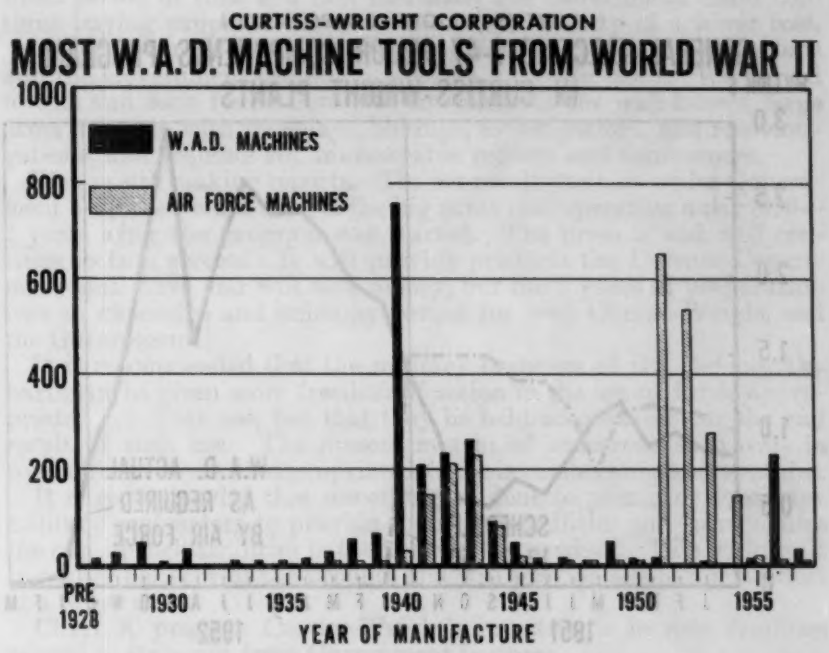
In the world of business and government today too much emphasis is being placed on profits and not enough on cost reduction. It is easy to talk about profits; it is a popular subject. But it does not require the work and know-how that goes into well planned cost reduction programs such as we have at Curtiss-Wright. Too often in dealing with price redetermination and price renegotiation problems under our contracts with the Government we have been faced with what amounts to nothing more than profit cutting.

The feast or famine scheduling and a 3¾ percent profit after taxes does not permit an aircraft engine manufacturer to develop the engines and accumulate the facilities necessary to meet the Government's requirements and accomplish the desired cost reductions.

Chart I illustrates the age of machine tools used by Curtiss-Wright to go into production for the Korean emergency which began in 1950.

(Chart I follows:)

CHART I

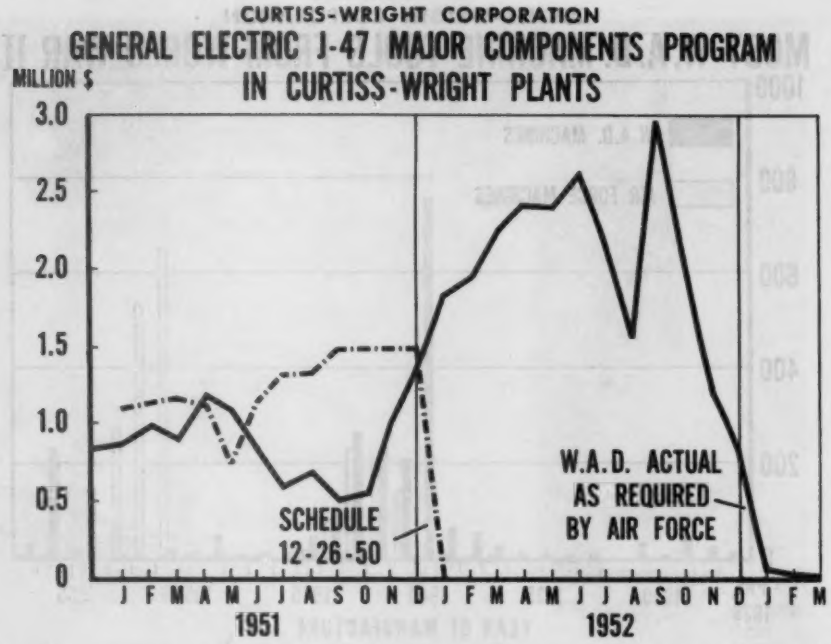


Mr. HURLEY. You will note that many of them are over 10 years of age and the new machine tools were made available after the emergency occurred and they were not all delivered until 4 years after the emergency occurred. This makes for high cost and it makes for long lead times.

At the time of the Korean incident, Curtiss-Wright was a subcontractor to General Electric for major engine components that were used in the North American F–86 fighters. Neither General Electric nor Curtiss-Wright had sufficient facilities to provide the engines required for these fighters and F–86 airplanes were on the ground in California without engines. Because of this shortage the Government compelled Curtiss-Wright to continue in the production of General Electric engine components for a year beyond the scheduled date as shown in chart J.

(Chart J follows:)

CHART J



Mr. HURLEY. We were scheduled to go down on one engine and come up on a new one at date and because of this shortage in the machine tool problem, we were compelled to continue on for this rate.

In the meantime the machine tools that were to go in the plant at this date were put in warehouses or distributed to other people and the production was a year late.

I think the point we would like to make with this chart: Had the Korean incident been a major war, in my opinion, the aircraft industry would have been unable to supply the Government with the aircraft required. We are now returning to the position of having 70 percent of military engine capacity in 1 company. Someday when an emergency again occurs, we will be unable to supply the engines needed and the engines will lack the progress that is the natural result of competition.

A good example of the problems facing the military services and the contractor when the Government furnishes facilities is the big extrusion press leased by the Government to Curtiss-Wright and located at our Buffalo plant. In September of 1949 the Chief of Procurement at Wright Field requested that we find a method of eliminating welding from steel propeller blades then being purchased by the Air Force.

A few months later we succeeded in extruding a steel propeller blade without welding, with improved physical properties, and with promises of large cost reductions. We submitted a proposal to the Government which called for Curtiss-Wright Corp. to provide the press with its own funds if the Government would allow us to charge the costs incurred to the propeller blades being produced and delivered

to the Government. We were confident that the savings for the blades then on schedule would be sufficient to pay for the press in a short period of time and that thereafter the Government could continue buying propeller blades of a superior quality at a lower cost.

Under Government practices and regulations this could not be done and the Government decided to provide the press itself. We agreed to this and soon found ourselves enmeshed in the well-known large press program with its delays, holdups, investigations, and reinvestigations, and requests for innumerable reports and conferences.

We are still making reports. The net result was that under Government auspices we did not get the big press into operation until 1956—7 years after the program was started. The press is and will continue to be a success. It will provide products the Defense Department must have and will save money, but the 7 years of preparation was an expensive and unhappy period for both Curtiss-Wright and the Government.

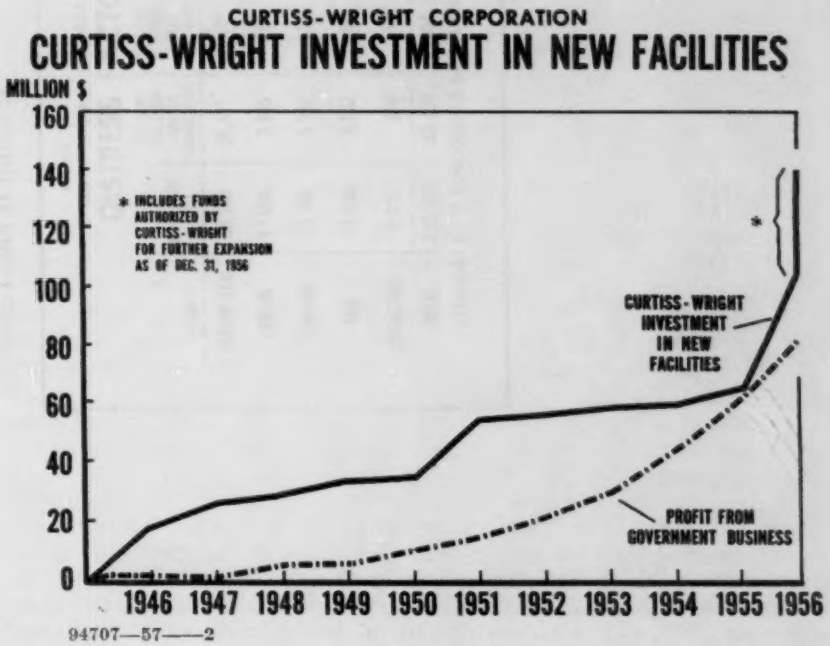
It is recommended that the military branches of the Defense Department be given more freedom of action in the use of funds appropriated for their use, but that they be held accountable for the end result of such use. The present system of numerous approvals in controlling the use of appropriated funds is cumbersome and wasteful.

It is recommended that something be done to permit or encourage military contractors to provide their own facilities and to recognize the cost of such facilities in the price of the product. This will result in earlier delivery of the product and will provide a superior product at a lower cost.

Chart K presents Curtiss-Wright's investments in new facilities related to its profit from Government business.

(Chart K follows:)

CHART K



94707—57——2

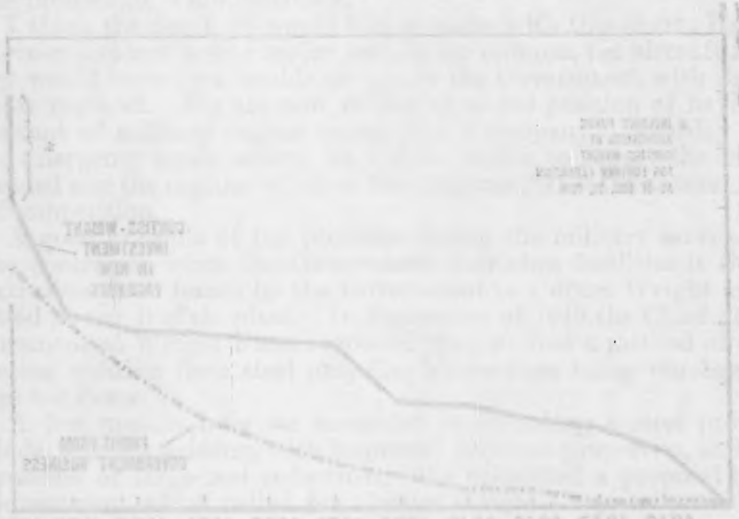
Mr. HURLEY. Here is accumulated profit over the period of 1945 to 1956. The blue line shows that all of this money plus has gone back into facilities.

An example of Curtiss-Wright's use of its profits to help the defense industry can be illustrated by the ultrasonic nondestructive testing equipment developed for use in quality control of rolled, formed, wrought, extruded and cast metals used by the military services in addition to commercial use. Such units are in use at United Aircraft, Wyman-Gordon, Douglas, Lockheed, Boeing, and many others. These ultrasonic devices improve the quality and reduce the cost of the product.

Another example of Curtiss-Wright's use of its profits—gentlemen, I recognize that Congressman Gavin's district is the district in which part of this unit is located.

Another example of Curtiss-Wright's use of its profits is the Curtiss-Wright Research Center at Quehanna, Pa. Our Government has repeatedly stressed the need for helping distressed areas. Curtiss-Wright responded to this request by locating its research center at Quehanna. Charts L and M indicate the need for employment and income-producing industries in the area which has a population of 230,100 people. There were 53,738 receiving surplus commodities to exist. However, there are only 3,354 of them on relief. There are 6,950 of them unemployed. Forty-two percent of the homes in the area lack interior plumbing, interior heating plants, running water and so forth.

The buying power per capita for Clearfield County, Pa., was $1,180, compared to Montgomery County, Dayton, Ohio, of $1,980.



(Charts L and M follow:)

Chart L

CURTISS-WRIGHT CORPORATION

DISTRESS FACTORS

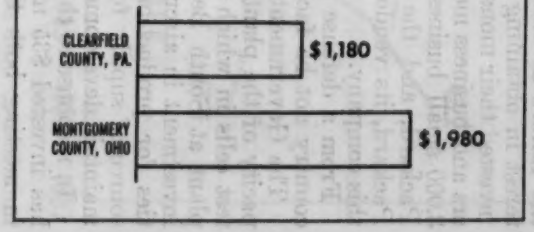
COUNTY	POPULATION 1955	PERSONS RECEIVING SURPLUS COMMODITIES	PERSONS RECEIVING PUBLIC ASSISTANCE *	UN-EMPLOYMENT	DILAPIDATED DWELLINGS
CLEARFIELD	83,300	36,611	2,168	4,200	50.6
CENTRE	67,800	7,265	617	600	43.4
CLINTON	37,100	5,200	434	1,150	39.0
ELK	34,900	4,152	92	1,000	31.3
CAMERON	7,000	500	43		33.3
TOTAL	230,100	53,728	3,354	6,950	42.0

* EXCLUDING AID TO BLIND, DISABLED AND OLD PEOPLE

Chart M

CURTISS-WRIGHT CORPORATION

BUYING POWER PER CAPITA 1954



Mr. HURLEY. The clear recognition of this need by Government contracting agencies will improve the standard of living in such areas, will provide for further economic growth of the country as a whole, and will result in lower cost of production for the Government.

Another example of Curtiss-Wright's use of its profits is its response to both public and Government requests for help in avoiding the failure or bankruptcy of Studebaker-Packard. The public interest in obtaining help is the fact that over a million citizens had invested their money in Studebaker-Packard cars, thousands of farmers and business men were depending on Studebaker-Packard trucks, 3,000 small businesses in the United States depend on Studebaker-Packard, and the jobs of over 30,000 employees of Studebaker-Packard, its vendors and dealers depend upon the continuation of this company.

From a defense point of view, I think it was important that the country not be faced with the bankruptcy of a large company.

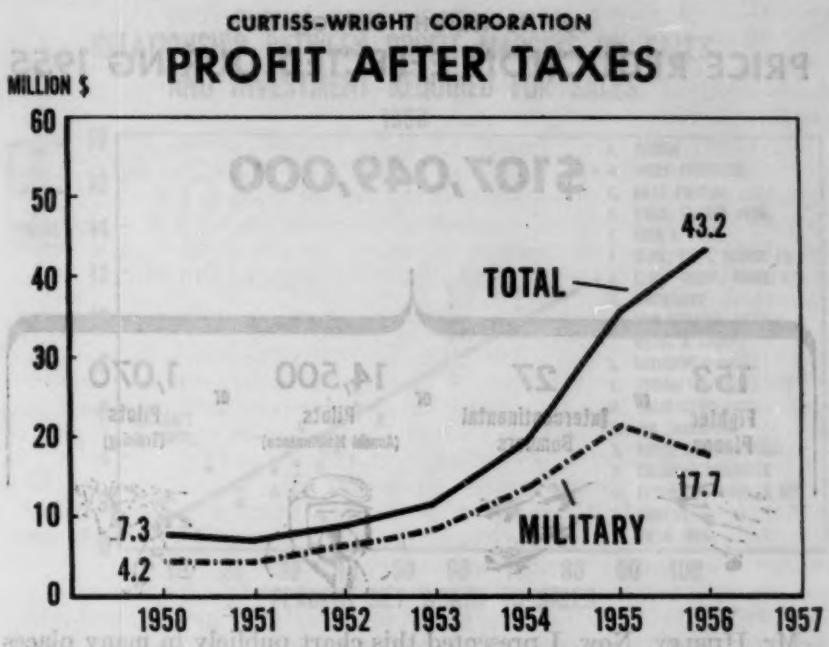
The Government's interests lie in maintaining the production capacity of the plant at Utica, Mich., with its 20-odd aviation engine test cells in which the Government has a large investment, and the plant at South Bend, Ind., in which the Government had a large investment in aircraft engine test cells, its desire to maintain facilities for production of military trucks, its desire to maintain the source of supply for diesel engines for naval craft and its desire to maintain development and production of the Dart missile.

In response to this public and Government request, Curtiss-Wright has invested $35 million of its own funds, and has been successful in meeting both the Government and public requirement for the successful continuation of Studebaker-Packard in the industry—for which, I feel, gentlemen, it should receive Government appreciation and cooperation.

Chart N presents the relationship between Curtiss-Wright commercial and military profits. For the first half of 1957 Curtiss-Wright's commercial profits accounted for over 65 percent of its earnings.

(Chart N follows:)

CHART N



Mr. HURLEY. In closing I would suggest that we stop considering taxes as part of profit and consider them as part of the cost of doing business; that we modify procurement regulations to correct the situations outlined above, and eliminate some of the renegotiation and redetermination procedures with regard to profits on Goverment contracts. We recently appeared before the Renegotiation Board with regard to the years 1953 and 1954. This is the fourth time the Government has reviewed these profits with Curtiss-Wright and in presenting these profits to this committee of Congress today we are reviewing them for the fifth time.

We endorse Congress policing the use of the taxpayers' money which it has appropriated for defense purposes and trust that this presentation will contribute to the committee's work.

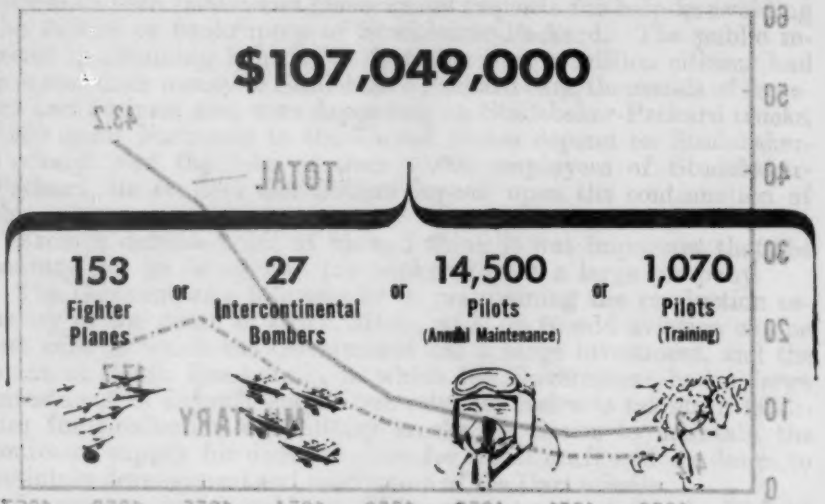
Mr. Chairman, I have two other charts here that I would like to take a moment to present to you. This is what cost reduction did in one year: $107,049,000. It was the equivalent of 153 fighter planes, or 27 bombers, or maintaining 14,500 pilots, or training 1,000 of them.

(Chart O follows:)

CHART O

CURTISS-WRIGHT CORPORATION

PRICE REDUCTION EFFECTED DURING 1955



Mr. HURLEY. Now, I presented this chart publicly in many places and for some reason or other there must be something wrong with this idea because there has been no recognition of it or no discussion of it.

I have another chart here, sir, which shows the relationship between profit margin on sales and investment required for sales of industry in America.

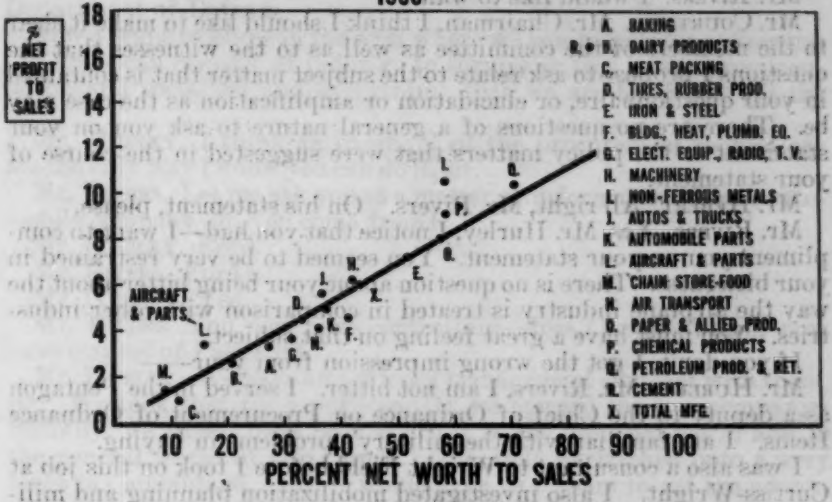
(Chart P follows:)

CHART P

CURTISS-WRIGHT CORPORATION

RELATIONSHIP BETWEEN PROFIT MARGINS ON SALES AND INVESTMENT REQUIRED FOR SALES

1956



Mr. HURLEY. The aircraft industry is here in "L". It is down in the area occupied by these other companies. The chain store, the meat-packing company, and dairy products. The relationship between facilities and profits is in the area in American industry of those companies that take somebody else's product and either merchandise them or process them. It is not in the area of the automobile company and the company that has to make something.

As long as, in my opinion, the aircraft industry is on this end of this chart, its costs will be high and its lead times will be long.

I have, Mr. Chairman, Mr. Dykstra and Mr. Hill who will be glad to give you specific and detailed statements on any of the figures and data we have submitted.

Mr. COURTNEY. Mr. Chairman, the questions that I have are of a general nature, not necessarily related to the points you made in your statement, Mr. Hurley. Probably you may choose to answer them, or the other finance people.

Mr. HÉBERT. One minute, John.

(Confers.)

Mr. HÉBERT. Mr. Courtney has no questions on the statement. Members of the committee—Mr. Rivers, you said you had to go?

Mr. RIVERS. I can come back.

Mr. HÉBERT. I mean this is on the general statement now we want to question Mr. Hurley.

Mr. RIVERS. I would like to wait.

Mr. COURTNEY. Mr. Chairman, I think I should like to make it clear to the members of the committee as well as to the witnesses that the questions I propose to ask relate to the subject matter that is contained in your questionnaire, or elucidation or amplification as the case may be. There are no questions of a general nature to ask you on your statement or the policy matters that were suggested in the course of your statement.

Mr. HÉBERT. All right, Mr. Rivers. On his statement, please.

Mr. RIVERS. Yes, Mr. Hurley, I notice that you had—I want to compliment you on your statement. You seemed to be very restrained in your bitterness. There is no question about your being bitter about the way the airplane industry is treated in comparison with other industries. You must have a great feeling on that subject.

If you don't, I got the wrong impression from your——

Mr. HURLEY. Mr. Rivers, I am not bitter. I served in the Pentagon as a deputy to the Chief of Ordnance on Procurement of Ordnance Items. I am familiar with the military's problems in buying.

I was also a consultant to Wright Field before I took on this job at Curtiss-Wright. I also investigated mobilization planning and military procurement for Secretary of Defense Forrestal. I spent a whole summer here on loan from the Ford Motor Co.

I have some very definite feelings, sir. The United States has been good to me. I started in a New England plant at 37 cents an hour, and without the help and background that maybe others have, I have come to the top of a large company.

I would like the country to remain as it is for my children and their grandchildren. But I see in the aircraft engine picture and the aircraft industry a failure to recognize these things that will reduce cost and will reduce lead time and that will enable us to successfully defend this country and to lead the world as far as the quality of the product goes.

Now that is a frustration, sir. There is nothing bitter about it.

Mr. RIVERS. It is bound to be bitterness, frustration or whatever you call it. You are frustrated, to be sure. Is that the result of the action of Congress in the taxing statutes?

Mr. HURLEY. No, sir.

Mr. RIVERS. Is it the result of the redtape of the Government generally?

Mr. HURLEY. It is, in my opinion, the result of very, very complex and very involved procurement regulations—documents that are innumerous that have developed around us over a period of years.

Mr. RIVERS. Do you think out-and-out competitive bidding, period, or changing the negotiation procedure—what is your suggestion to change that?

Mr. HURLEY. You, sir, can't get competitive bidding under the present procedure of the Government providing the facilities. I think you first have to let these companies get strong, just as this automobile

company got strong. As soon as they have the facilities, you can get competitive bidding and you will get much lower prices.

Mr. RIVERS. Now we have given the Government discretionary powers in that area in which you direct your animosity, it seems to me. That is my understanding, Mr. Courtney.

Mr. HURLEY. Well, look at my experience with the big press.

Mr. RIVERS. That was strictly—that was inherent red tape of the Department of Defense.

Now I want to know in the area where we can be helpful to keeping the American concept of industry to survive in this time of regimentation and socialism and everything, that we are headed to all the time.

Mr. HURLEY. I think an overhaul of the procurement regulations are the only way I know you can do it, sir.

Mr. RIVERS. Let me ask you as a matter of information: What automobile company did you come from?

Mr. HURLEY. Ford.

Mr. RIVERS. Ford?

Mr. HURLEY. Yes.

Mr. RIVERS. You now have controlling—does Curtiss-Wright now have control of Packard?

Mr. HURLEY. We have an advisory management contract with them, sir. We took that for a purpose. If we merged the two companies initially, we would have been charged in the financial world and in the general world of two things. One, that we latched onto a very large tax advantage, and—it would take us 2 years to get the advantage and then we drop Studebaker-Packard after we had the tax advantage. Or that the Curtiss-Wright Co., which is earning money, would begin to lose money because Studebaker-Packard has historically lost money.

Mr. RIVERS. Thereby benefiting taxwise.

Mr. HURLEY. Therefore we took the more difficult way, but one that is better for Studebaker-Packard, and we said we are going to demonstrate that Studebaker-Packard will make money, itself, and then after we have proved that we will decide whether Studebaker-Packard should be merged.

We have a management contract and we also have an option on 5 million shares of the corporation.

Mr. RIVERS. Does the Daimler Corporation have the same sort of agreement?

Mr. HURLEY. No, sir.

Mr. RIVERS. They just bought stock.

Mr. HURLEY. We in Curtiss-Wright have been quite active in working with overseas companies. The airplane has made the world rather small. Personally, I feel we should not look on them as foreigners, but neighbors. We have contracts with English, French, German, and Italian companies, more than I believe anyone in the aircraft industry. The Daimler Benz Co. has some products and some ideas that we want in the United States.

Mr. RIVERS. That is a good company.

Mr. HURLEY. Yes, sir. We were in the process of bringing them in when they asked us to sell their automobiles.

Mr. RIVERS. I hope the time is not coming when we will only have three producers of automobiles in this country. I want to congratulate you.

Mr. Chairman, I have to go.

Mr. HÉBERT. Mr. Hurley, you may be seated.

Mr. HURLEY. I would like to stand.

Mr. HESS. I would like to follow along on some of the questions Mr. Rivers has asked you with reference to this Packard-Studebaker deal, of Curtiss-Wright taking them over. I believe Curtiss-Wright was given a Government contract, last July, was it not, for the overhaul of motors—the J–47?

Mr. HURLEY. Yes, sir.

Mr. HESS. That was to be performed, I believe, in your Utica-Bend plant?

Mr. HURLEY. That is right.

Mr. HESS. That was a Government facility, was it not, a Government-owned facility?

Mr. HURLEY. No, sir.

Mr. HESS. It was not a Government-owned facility?

Mr. HURLEY. The plant belonged to Studebaker-Packard and we advanced them 10 years rent for the plant in order they might have cash to use in their automobile business. The test cells belong to the Government.

Mr. HESS. I see. But Studebaker-Packard, then, has the contract for the overhaul?

Mr. HURLEY. No, Curtiss' plant, in the plant it leased from Studebaker-Packard.

Mr. HESS. Oh, they use the plant from Studebaker-Packard?

Mr. HURLEY. That is right.

Mr. HESS. On a 10-year basis?

Mr. HURLEY. Twelve.

Mr. HESS. Twelve-year basis. Was your initial contract with the Government the result of bids or was it a contract that was entered into in a negotiated way?

Mr. HURLEY. The contract, sir, for the work that was taken on as a result of that came as a result of my going to the Defense Department and saying, "We will be glad to undertake the maintenance of these plants that you want kept available for Government production, and we will be willing to undertake the bailing out of the difficulties that these various contracts are in, provided you will give us an indication of the amount of business that you intend to put in these plants."

And among the business that was indicated to us as business that could be put in these plants, and would be put in, would be the overhaul of engines. We have taken on the job on a competitive basis. Mr. Dykstra can give you the specific details of this contract.

Mr. HESS. On a competitive basis, you say was done?

Mr. HURLEY. Yes, sir. We went in there to be completely competitive in the overhaul of engines.

Mr. HESS. Were there bids asked for at that time when the Government entered into the contract with you?

Mr. HURLEY. I can't answer that.

Mr. DYKSTRA. May I answer that?

Mr. HESS. Yes.

Mr. DYKSTRA. No. The initial contract was a negotiated type of contract. However, it was with the stipulation and understanding at that time that once the establishment was set up and the learning

curve achieved, that from then on all pricing would be on a competitive basis.

Mr. HESS. When will that time be reached?

Mr. DYKSTRA. The time is reached now. We have virtually performed the production of the first 500 engines that were contracted for.

Mr. HESS. You have overhauled the 500 engines?

Mr. DYKSTRA. That is correct. The engines were overhauled exactly in accordance with contract schedule. We met every schedule that the Air Force required in their contract.

Mr. HESS. Do you maintain a staff of design or production engineers there at that plant?

Mr. DYKSTRA. Not for the purpose of the overhaul operation, but in the Utica-Bend Corp. there is a staff of engineers and production design people.

Mr. HESS. Yes.

Mr. DYKSTRA. We have many products in that corporation. The overhaul of jet engines is just one of the projects.

Mr. HESS. Just one of the projects. Are they all Government projects, Government contracts, sir?

Mr. DYKSTRA. There is a small sprinkling of commercial business now being developed, but initially they were all Government contracts.

Mr. HESS. Well, when you entered into this contract for the overhaul, was the plant closed at that time?

Mr. DYKSTRA. The plant was inoperative at the time. It was being used for storage. It was not a producing plant, except the test cells were available for immediate usage by minor modification.

Mr. HESS. Did Curtiss-Wright put any money to rehabilitate the plant?

Mr. DYKSTRA. Yes; Curtiss-Wright and the Government both expended dollars with respect to—not rehabilitation, sir, but making the plant ready for the peculiarities of overhauling jet engines.

Mr. HESS. Retooling?

Mr. DYKSTRA. Yes. The plant in itself is a modern plant. It was built for the production of jet aircraft engines during the Korean emergency.

Mr. HESS. The same engine, I believe; was it not?

Mr. DYKSTRA. The same engine, yes.

Mr. HESS. That was being overhauled?

Mr. DYKSTRA. Some of the Studebaker-Packard personnel were assigned to work with the engine as a result of their previous contracts.

Mr. HESS. Had you ever done any overhaul on the J–47?

Mr. DYKSTRA. No; not on the J–47; but our engine division, as Mr. Hurley mentioned earlier, made for quite a period of time the major components of the General Electric J–47 engine.

Mr. HURLEY. The Studebaker-Packard people up there were very familiar with the J–47. They built the engine in the plant at Detroit and overhauled it.

Mr. DYKSTRA. That is correct.

Mr. HURLEY. May I say, the Government contracts in Studebaker-Packard were one of the most complex, mixed-up messes that I ever got in touch with, actually. For example, the Navy wanted diesel

engines and they had craft for diesel engines and the Studebaker-Packard was not in position to deliver them and deliver the spare parts. There were engine components in default. We picked up contracts in being that were in default; contracts that were about to come into being. It was a very complex situation. It is all now on schedule and is all now competitive and will be competitive.

Mr. HESS. When does the contract expire?

Mr. DYKSTRA. The initial——

Mr. HESS. When will it be completed?

Mr. DYKSTRA. The initial overhaul contract will be completed this month.

Mr. HESS. That is for 500 motors?

Mr. DYKSTRA. For 500 engines; that is correct.

Mr. HESS. Is the Air Force asking for bids now?

Mr. DYKSTRA. We are presently negotiating with the Air Force on the basis of a proposal we have submitted.

Mr. HESS. You have submitted a proposal?

Mr. DYKSTRA. We have submitted a bid proposal; yes.

Mr. HESS. Has the Air Force advertised or are they proposing to advertise for bids or are they going to negotiate again with the various plants?

Mr. DYKSTRA. I believe they are going to negotiate with the various suppliers who presently overhaul engines. But, however, such negotiations are obviously on a competitive basis.

Mr. HESS. Yes; I understand that. Do you happen to have the cost figures of the overhaul of these engines in the original contract?

Mr. DYKSTRA. Yes, if you will accept approximations? I don't have exact figures. But the cost figures for the first 500 engines were high because the cost included the rearrangement costs and the start-up and set-up costs.

The first——

Mr. GAVIN. Wait a minute. Before—Mr. Chairman, before he proceeds now. The figures you are submitting here would openly bring competitors into position to have any knowledge?

Mr. HURLEY. Yes, sir.

Mr. GAVIN. Of what you are bidding on them. In that event, I don't think the gentleman——

Mr. HESS. I am perfectly willing to withdraw the question, if the gentlemen feel it would in any way interfere with their business.

Mr. DYKSTRA. Thank you, sir.

Mr. HÉBERT. The witness is the one to make the decision. You may proceed.

Mr. COURTNEY. Mr. Hurley answered the question, Mr. Chairman.

Mr. HÉBERT. All right.

Mr. HESS. Was this contract that was entered into with the Air Force one of the reasons for your entering into an agreement with Packard-Studebaker to help finance that company and bring them out of the doldrums?

Mr. HURLEY. Mr. Hess, a contract overhaul for 500 engines has very little influence in a man's mind when he puts $35 million into rescuing a company that is losing $100 million a year.

Mr. HESS. I haven't any idea, of course, what the contract amounted to, the amount of dollars for the contract.

Mr. HURLEY. Very few dollars, sir, and a very small margin of profit on it.

It was a means of keeping employment in a distressed labor area and keeping part of an organization together to do a job. There were other contracts in the area, defense contracts also—the diesel engines, the Dart missile, and so forth.

Mr. HESS. Studebaker-Packard held those contracts?

Mr. HURLEY. That is right, sir. They were in default and they didn't have the funds to carry on with them, and the Government couldn't get its costs, and the Government was faced with the problem of getting other bids, getting new contractors started. The Government saved a great deal of money by what went on up there, and I think we can demonstrate that to your satisfaction.

Mr. HESS. I think that is all.

Mr. MILLER. You said in the rearrangement—I think you objected to the word "rehabilitation" of this plant—the Government put up some dollars and Curtiss-Wright put up some dollars.

Mr. DYKSTRA. Yes, sir.

Mr. MILLER. Well, what was the proportion of the money that was put up?

Mr. DYKSTRA. Roughly 80 to 20, 80 being Government.

The recognition of that type of cost in the price of product is normal as far as that type of Air Force contracting is concerned.

Mr. MILLER. Now——

Mr. DYKSTRA. I haven't completed my answer.

Mr. MILLER. Excuse me.

Mr. COURTNEY. Mr. Dykstra is now on the record. Go ahead, Mr. Dykstra.

Mr. DYKSTRA. However, what Curtiss-Wright furnished was the plant facility in itself. And as Mr. Hurley earlier mentioned, prepaid rental for a 12-year period.

In addition to that, of course, the building of the organization and the utilization of facilities other than just rearrangement, that were already existent in Studebaker-Packard plants, which were purchased by the Utica-Bend Corp., were put into operation as company investment.

So there was capital investment as well as the expense of rearrangement of those facilities.

Mr. MILLER. It was still Government money that we used, on about a 50–50 basis, then. Actually 80 percent cash to 20 percent cash——

Mr. DYKSTRA. No, sir. Cashwise, that is not correct. Because Curtiss-Wright has paid the rental to Studebaker-Packard for those plants in advance. We have put into rentals and into Studebaker-Packard's cash register $20 million. Now, the return on that investment is not going to come out of 500 overhauled engines. It would take many, many thousands of engines to do that.

Mr. MILLER. Mr. Dykstra, it was to Curtiss-Wright's interest to do that. You entered into a business arrangement. And you are in business to make a profit. But when you then asked the Government to match your own investment or to put up 80 percent of cash as against 20 percent cash, according to your own figures, you did that to help you make a profit.

Mr. DYKSTRA. I think we are confusing the word "investment" with the words "plant rearrangement." Plant rearrangement and the shuffling or the putting in place of machine tools is a cost normally recognized by the Air Force under current regulations to any company, not just Curtiss-Wright.

Mr. MILLER. I appreciate that. And I can understand how you objected to the use of the word "rehabilitation." You stressed this plant rearrangement, which sounds a great deal to me like splitting those fine hairs of bureaucracy that Mr. Hurley violently opposes here. So you fall into the same trap of getting caught in these things.

I am quite sympathetic to what you are doing, that you are baling out another company that will prove very valuable to this company.

I am also conscious of the fact that you are helping labor-distressed areas. But I wonder if in doing this you might not create some labor-distressed areas where some of this work is being done in other places by setting up a new agency to do some of this work.

Mr. DYKSTRA. I don't believe so, sir. I would like to cite the employment figures of Utica-Bend. As of last August, there were no employees, obviously. As of today, we have 4,275 people employed in the various activities of the corporation, a part of which is the jet overhaul contract, and in the areas in which Utica Bend is operating, namely, Utica, just outside of Detroit, and South Bend, the employees are as follows: There are 1,759 at Utica and 2,516 at South Bend. So we have created employment for those people, a total of 4,300.

Mr. HESS. Would the gentleman from California yield there?

Mr. MILLER. Yes.

Mr. HESS. I might say by reason of giving this contract to Curtiss-Wright, they cut back a contract with General Electric and laid off 800 people in another area.

Mr. MILLER. I was just going to tell this gentleman that in view of setting up this company that can do this type of work, the projected—for instance, at some governmental installations that are now employing, one in particular, 7,000 men, is contemplated in the future to cut back to 3,000.

Mr. DYKSTRA. May I comment on that? The requirements of the Air Force can't be controlled, of course, by the contractor. As we understand it, there is a cutback on all overhaul of this particular engine, which does not result from Utica-Bend entering into the picture. And, furthermore, if 800 employees were laid off as a result of the contract at Utica Bend, that is a bit amazing to me because we only employ 600 people to do that job.

Mr. MILLER. I don't know anything about what is going to be laid off there. I say at another installation there will be certain people laid off as the result of the general cutback in this thing.

Mr. DYKSTRA. But this, sir, is true in the entire defense program, is it not?

Mr. MILLER. Certainly it is true of the entire defense program. But I question the interest of the Government when this sort of thing is going to come about, investing its money for Curtiss-Wright to set up a new plan to be in competition with the plants that are already in operation.

Which means just spreading the thing a little thinner throughout the country.

Mr. DYKSTRA. As I understand it in this particular instance, sir, there wasn't any competition. There was only one commercial force. I believe the Air Force desired to interject competition with respect to the overhaul of this engine. I think the result will be to the benefit of the Air Force ultimately.

Mr. HURLEY. Mr. Chairman, may I add something to that?

Mr. MILLER. You will do work for other than the Air Force. This engine is not used exclusively by the Air Force.

Mr. DYKSTRA. Yes; it is.

Mr. HÉBERT. It is.

Mr. DYKSTRA. It is strictly a military engine.

Mr. MILLER. How about the Navy? Doesn't the Navy have this engine in their airplanes?

Mr. DYKSTRA. Very few of them.

Mr. MILLER. Very few.

The Navy does have them. They can have them. They are interchangeable in certain areas.

Mr. HÉBERT. Mr. Hurley, you desire to make a statement?

Mr. HURLEY. My problem in connection with Studebaker-Packard was to find a way to save 30,000 jobs and to save 3,000 small businesses and to get a whole mass of Government contracts out of a difficulty that would be very expensive to the Government. We picked on here the smallest and the least important of them. But nevertheless it is a part of all of them.

Mr. MILLER. I will yield the floor after my observation on that. I think it is very laudable that you do that. But I can't consider it so laudable when you bail out this company with substantial aid from the Government, when perhaps it is going to reflect itself in other places in other parts of the economy.

So I think that that is very fine for you to do it, but I don't think that other people, men perhaps 1,500 miles away from Utica, who are going to lose their jobs eventually as a result of this thing, can feel too kindly toward Curtiss-Wright, who in the final analysis profits from the deal and profits with the use of 80 percent of Government money.

Mr. GAVIN. I want to compliment Mr. Hurley on a very interesting and informative statement and also on this brochure and his charts and graphs, which were very nicely done.

I want to ask Mr. Hurley: Are you operating in any other Government plants or facilities, in either Curtiss-Wright or Studebaker-Packard?

Mr. HURLEY. We are operating at Santa Barbara, Calif., in our own plant, sir. The Government had a great many contracts with a company out there on Dart missile and some other things that were very important missile projects. The work was distributed to 20 or 30 small buildings scattered all over. Security problems existed all through it. We went in and built a new plant complete.

Mr. GAVIN. At your own expense?

Mr. HURLEY. At our own expense, in order to bail out the Dart missile and other contracts. And I can prove, sir, we saved the Government a great deal of money.

Mr. GAVIN. On those particular facilities, that were previous to your building the plant, were they Government facilities? Were they Government-owned plants?

Mr. HURLEY. No, sir.

Mr. DYKSTRA. They were rented.

Mr. HURLEY. No, sir.

Mr. GAVIN. You are not operating in any Government-owned property?

Mr. HURLEY. No, sir.

Mr. GAVIN. Or was owned by the Government?

Mr. HURLEY. No, sir.

Mr. GAVIN. At the present time.

Mr. HURLEY. No, sir.

Mr. GAVIN. The only thing that the Government has invested at all was this 35,000-pound press that you are talking about; is that right?

Mr. HURLEY. It is a 12,000-ton press, Mr. Gavin.

Mr. GAVIN. What is it? What was the cost of that press?

Mr. HURLEY. The cost of that press and the equipment was $7 million, sir.

Mr. GAVIN. Seven million dollars. What I am trying to get at: Any part of your business that you are operating in Government-owned facilities or have any Government equipment to any great extent?

Mr. HURLEY. We have the machine tools at Wright Aero. We have the press at Buffalo. And we have some odd machine tools in various plants of ours. But other than that, no. Government facilities are very limited in Curtiss-Wright.

Our investment in facilities, Mr. Gavin, I believe is in the order of about 32 cents of our sales dollar, and I think it is within one cent of General Motors' investments in facilities for its production. And if there is any company in the aviation industry that can't be accused of using a lot of Government facilities, it is Curtiss-Wright. I think an investigation and comparison of all the companies will show that we are in good condition in that area.

Government facilities, sir, as I indicated here, come too late and they cost too much, and I personally would prefer not to have them, if it could be arranged.

Mr. GAVIN. Then it is evidently, Mr. Chairman, an entirely different situation that you have in the aircraft industry where most of the plants and much of the equipment is Government-owned and either leased or small rentals paid.

I was trying to ascertain whether or not the engine manufacturers were operating in Government-owned and Government-paid-for facilities. And it is evident that at least Curtiss-Wright—the first company here—haven't been using Government-owned facilities or Government-owned equipment to any great extent.

I also want to compliment you on deciding to locate that research laboratory at Quehanna. And I hope that some of the Air Force officials are here today. Because all of the facilities that are established by the Government in the aircraft industry are going into certain areas of the United States. And I am glad to see that you had the courage to locate in Pennsylvania, where we have millions of acres of available land, where other sections of the country are constantly being cramped. They can't find the locations. But still they will insist on putting them in. And here you have gone up into Pennsylvania, into an area where you can operate with some degree of freedom without objection by local interests in the research and develop-

ment of jet engines. I am pleased that you had confidence to go into a virgin industrial area that could be used to a good advantage, where most of the facilities from the Defense Department are going into highly congested areas.

So I was pleased to note that you are. Although, not to any great extent in my district, but in Pennsylvania where there is considerable acreage available to develop such organizations as you are, particularly on jet engines where it has become so objectionable to some parts of the country.

I have no further questions.

Mr. HURLEY. Mr. Chairman.

Mr. CUNNINGHAM. Mr. Hurley, I am sorry, I did not hear all of your statement—excuse me. Go ahead.

Mr. HURLEY. May I add something to that that is pertinent to the question that was just brought up? You see this line here? That is a Curtiss-Wright engine that we want for commercial use, that we want to build in our plant, that we own, that is being built in a plant owned and paid for by the Government. So this thing cuts both ways. And that is a rather rough cut.

Mr. MILLER. We would all like to see it cut back where it belongs.

Mr. HURLEY. We are building two new plants in California, sir.

Mr. MILLER. May I ask you: Did I understand you to say that this big press at Buffalo cost $7 million?

Mr. HURLEY. Yes, sir.

Mr. MILLER. Only $7 million? I was under the impression they cost a great deal more than $7 million. I wanted to make sure that I heard you properly, to get it on the record, that you say it cost $7 million. Is that correct?

Mr. HURLEY. Yes, sir.

Mr. MILLER. Thank you.

Mr. CUNNINGHAM. Mr. Hurley, I am sorry I didn't hear the first part of your statement. Had I heard it I might not have seen any question. It may have been answered.

In your opinion, if your company or some other company had not taken over or made an agreement of some kind with Studebaker-Packard, would not the Government have been in difficulty in having contracts fulfilled that it had placed with Studebaker-Packard?

Mr. HURLEY. Yes, sir, it would have been difficult and it would have cost the Government a great deal more money to rearrange or to replace those contracts.

Mr. CUNNINGHAM. Then, my next question is: Did you bail out Studebaker-Packard or did you bail out the Government?

Mr. HURLEY. I think, sir, we bailed out both.

Mr. CUNNINGHAM. Now my third question is: Did you not also bail out some labor that would otherwise have been out of employment had you or someone else not have gone to the rescue of Studebaker-Packard?

Mr. HURLEY. Mr. Cunningham, I worked 7 days and 7 nights a week for a period of time to find out how we could bail out Studebaker-Packard on the Government contracts with the least amount of upset to labor people, machines, Government investment, and Studebaker-Packard investment.

Mr. CUNNINGHAM. Now, a reference has been made in the hearing so far as I understood it that the employees, the laboring man in one part of our country, lost jobs as a result of what you did.

My question is: Were more jobs saved somewhere else than were lost in that particular one place?

Mr. HURLEY. It is my opinion that the number of 800 jobs that have been lost in the Cincinnati area—it is not a distressed area in my opinion. There are other jobs to be had there. Detroit and South Bend are both distressed areas, both recognized by the Labor Department and by the unions as being distressed areas. We had a problem of saving, as I said before, 30,000 jobs, plus 3,000 small businesses, with their employees. And how to do it and do it best was a task that took about 6 months out of my life.

Mr. CUNNINGHAM. Thank you.

Now I have one more, more or less of a statement, probably foreign to this committee's issue so far. But as I see it, if these automobile companies that are on the ragged edge are permitted to go under, we will soon end up with 1 or 2 automobile companies having a complete monopoly, and that is the worst thing that could happen to the automobile industry, to the country, and to labor, and when that day comes, for the preservation of our children and their rights, I see no other way than for the Government to take over the automobile industry, for their own good. I think you are doing a laudable thing.

Mr. OSMERS. Mr. Chairman, on page 25 of Mr. Hurley's printed statement, it says:

> **It is recommended that the military branches of the Defense Department be given more freedom of action in the use of funds appropriated for their use, but that they be held accountable for the end result of such use.**

Now, it seems to me, Mr. Chairman, that that statement or that recommendation runs almost exactly counter to recent recommendations that have been made by this committee in connection with procurement. That is, we have said, in this committee, that it is in the interest of the Government to have a competitive bid procedure to limit the freedom of action of Government officials in procurement fields and to hold them accountable long before the end result.

This committee has devoted itself here recently to some end results of negotiation procedures. Now, I would like to ask Mr. Hurley whether he is speaking only of the aircraft engine field when he makes that recommendation or is he referring to merely all defense procurement?

Mr. HURLEY. Sir, we have had the experience of developing something that would save a substantial sum of money. We had the experience of my going, myself, to high ranking officers, and demonstrating to them that we could save this money, and being advised that they would give us the facilities to make the saving. Then we have had the experience of months and months and months going by when coordination and approvals upon approvals upon approvals were being obtained and the project was finally lost.

I have had a man suggest to me in our organization, "I can do this to save money." By the time we get through some of these approvals, so many months go by that when you go back to them and say, "Now we can do this," and he will say, "I couldn't wait for that, I did this." And our other people lost interest in doing the things to save money.

I don't think there is any conflict between what I recommend and what the committee recommends. But once you made up your mind to do something and if you have decided you are going to buy a particular engine or a particular airplane, I say get on with the buying of it on a competitive basis and do the things you need to do to get low cost. But don't coordinate it with—I don't know, whether it is 50, 100, or 150, or 500 people, and have approval upon approval upon approval. Everybody gets discouraged and disgusted. I am sure the committee is not in favor of what goes on.

Mr. OSMERS. Admitting, Mr. Chairman, that there is a great deal to Mr. Hurley's point, I also just want to say for the record right here and now that in connection with, for example, air conditioners, that when a very large corporatiton—I believe it was Boeing—I hope I am right on that, that they placed——

Mr. COURTNEY. Convair.

Mr. HÉBERT. Convair.

Mr. OSMERS. Convair. They placed an order 3,000 miles away by mail, when to me it represented one of the most shameful disregards of the Government's interest that I have ever seen, as to delivery, price, or in any other respect.

Mr. GAVIN. Just at that point, you say they placed an order with whom, do you recall?

Mr. OSMERS. With some Richmond, Va., organization.

Mr. HESS. Recony.

Mr. HÉBERT. Recony.

Mr. GAVIN. We just recently had that investigation, Mr. Counsel. What is the result on that contract that he refers to that was placed with Convair by Recony?

Mr. COURTNEY. Well, the contract that the gentleman refers to, to anticipate the report of our investigator—the contract that you speak of was canceled for default in performance. There is a difference of opinion, of course, between the contractor and Convair as to the responsibility and as to liability and as to the facts. But the ultimate fact is that the contract has been canceled and the contract has now been placed with the complainant in the incident that you referred to at a lower price than originally.

Mr. HÉBERT. That is Keco?

Mr. COURTNEY. Yes, sir.

Mr. OSMERS. Mr. Chairman, I don't want to go into that investigation again, but it is a natural thing for one to speculate what happens to the delivery schedule that Convair had with respect to that item if they canceled it after a long period of time and have now just placed it with some other firm.

Now back to the matter of aircraft-engine procurement. Mention has been made here several times about the advantages and the disadvantages of Curtiss-Wright going into Studebaker-Packard and whether that was a good thing for Studebaker-Packard, Curtiss-Wright, its employees and suppliers, and the country in general.

While I think, Mr. Chairman, that it is a very wonderful thing to have a large business continue like that, sooner or later the Congress of the United States will have to decide whether the power and the resources and the gifts of the Government will be used to keep large corporations afloat.

We know that a small-business man, if he is going under, he just goes under and his employees go under with him.

Now, the broad question of whether the resources of this Government—and I am talking about taxpayer money—should be used to shore up businesses which through their own management have become weakened—certainly they had Government contracts. They can't say they were frozen out.

Now, whether a firm which no longer has been able to maintain a competitive pace in its industry, such as the automobile industry—whether that should be lifted up. Does that mean, too, that if Nash and Hudson needed help, we should keep them going and if then some other one of the remaining three should become in difficulties, whether we should again go into that, is a philosophical question that has been raised here, rather than answered.

I would like to ask a question about the Studebaker-Packard situation.

I understand that you got a contract to overhaul engines, 500 engines, and that it is intended that the overhaul of these engines will be placed on a competitive basis; is that correct, Mr. Dykstra?

Mr. DYKSTRA. That is right.

Mr. OSMERS. And I believe you said that 80 percent of the funds to rearrange that plant for the performance of the overhaul came from the Government, is that correct?

Mr. DYKSTRA. As far as the type of cost ordinarily recognized by the Air Force in prices; yes. The investment—I am sorry, Mr. Hurley.

Mr. HURLEY. How many dollars involved? Dollars involved and the rearrangement are small compared to the other dollars.

Mr. DYKSTRA. The dollars involved are small; yes.

The ultimate price of the engine, which incorporates all of the dollars we have discussed here, will be in the $6,000 area.

Mr. OSMERS. Per engine?

Mr. DYKSTRA. Per engine.

Mr. OSMERS. All right. Now, you are about to complete the contract of the 500-engine overhaul, is that correct?

Mr. DYKSTRA. That is right.

Mr. OSMERS. And now negotiations are going on for additional contracts?

Mr. DYKSTRA. That is correct.

Mr. OSMERS. And I assume that these negotiations are going on with other companies, too?

Mr. DYKSTRA. I would presume so, sir.

Mr. OSMERS. You would presume so, though I wouldn't expect you to have knowledge of that.

Now, how will a competitor, now that you have rearranged your plant with 80 percent Government money—how will a competitor be able to compete unless he, too, would have 80 percent Government money to prepare himself for the overhaul?

Mr. DYKSTRA. I believe the only existing competitor has also in the original contracting for his work received the same considerations, contractwise.

Mr. OSMERS. This is the contract that has been referred to here before, that was originally with some other company, is that correct?

Mr. DYKSTRA. That is correct.

To my knowledge, the Air Force gave no more consideration to Utica Bend Corp. than to any other contractor with whom they are doing overhaul business.

We have knowledge in this respect, incidentally, sir, by virtue of maintaining an overhaul operation in Clifton, N. J., where we overhaul J–65 jet engines.

The contracting with the Air Force, when that organization was established, was no different than that—than the type of contracting and the consideration with Utica Bend.

Mr. OSMERS. No; I am sure it wasn't, except that because it involves a Studebaker-Packard facility I think it requires special attention.

Mr. DYKSTRA. Except it is not a Studebaker-Packard facility at this point. I must reiterate that Curtiss-Wright has invested, and paid in advance, the rental for a modern plant, which will produce an efficient operation.

Mr. OSMERS. But, Mr. Dykstra, wouldn't you say that the number of industrial organizations that would be able to pay 10 years' rent in advance in cash would be rather limited?

Mr. DYKSTRA. Perhaps.

Mr. OSMERS. Right. Let us say that we now have only two companies that are able to compete for the overhaul of these engines and both of them have been placed in that competitive position by Government money. You have had Government money—80 percent—whatever it was, however small the amount might be, and you say that so far as you know the competitior has also received Government money.

Mr. DYKSTRA. Yes, sir.

Mr. OSMERS. All right.

Now, I would like to ask Mr. Hurley a question in connection with the future of Studebaker-Packard. Do I understand, Mr. Hurley, that Studebaker-Packard intends to remain in the passenger automobile business?

Mr. HURLEY. Yes, sir.

Mr. OSMERS. The latter experience of Studebaker-Packard or of that business was very, very unhappy. Do you hope to be able to change that situation?

Mr. HURLEY. Yes, sir. I would like to say, sir—I would like to make it clear that in my opinion the Government has not bailed out Studebaker-Packard. The industry is bailing it out. And it is money from a private source and not from the Government source.

What we are doing in Studebaker-Packard: We are bringing into Studebaker-Packard a line of automotive products that are not so directly competitive with the Big Three. And on that basis, the company can succeed.

We are bringing in some new devices, too, that are of importance to our Government, defensewise. One will be in this month, sir, and for our Government to pay for the development of that device—I think it might cost our Government $20 million. Our Government is going to get the first of those devices. And I don't think it is costing them a dollar, is that correct?

Mr. DYKSTRA. That is right, sir.

Mr. HURLEY. And that is coming out of this deal. That is a rather important development.

There is a lot to this deal, sir, and it is a rather complex and involved one. As I pointed out there are a great mass of contracts in many areas, with almost all branches of Government.

Mr. OSMERS. Mr. Hurley, in your opinion, if all Government contracts were taken away—not taken away, but if they expired and were not renewed in any form, is your opinion that Studebaker-Packard could continue as a profitable manufacturing concern without any Government business?

Mr. HURLEY. We took the Government contracts away from them, sir, because they could not do both. And we, Curtiss-Wright, took on the burden of bailing those contracts out. It will be a long time before we get that money back out of Government contracts. A little arithmetic will show that to you. Yes, I am of the opinion that Studebaker-Packard can succeed. In the month of June, the sales went up markedly for Studebaker-Packard products, in fact was running ahead of the rest of the industry. I see no reason for that company not succeeding.

Mr. OSMERS. I think it would be a very dramatic and a very fine thing for the economy if Studebaker-Packard can continue as the fine company it has been over the years, without the Government help.

Mr. HURLEY. It has no Government business now, except a little work it has done as a subcontractor for Curtiss-Wright.

Mr. OSMERS. I have no further questions.

Mr. HÉBERT. Mr. Osmers, I want to take this opportunity to agree with you in your very lucid opening comments. I think they express the opinion of a good many of us.

Now, Mr. Hurley, I want to say this at this time, that you injected the Packard-Studebaker situation into this hearing in your own statement.

Mr. HURLEY. Yes, sir.

Mr. HÉBERT. Which I assure you I welcome, because if you hadn't done it I am sure some members of the committee would have done it.

Mr. HURLEY. Yes, sir.

Mr. HÉBERT. Now let's explore that situation a little bit more and get to what really happened and what are all the facts in the case.

Mr. Dykstra, I understand that you say the Air Force wanted to broaden its base for the overhaul of engines?

Mr. DYKSTRA. Yes, sir.

Mr. HÉBERT. The Air Force wanted to broaden its base for the overhaul of engines.

Mr. DYKSTRA. That is what we were informed.

Mr. HÉBERT. You were informed that. At that particular time, General Electric was overhauling the engines, there were 2 other bases, 1 in Oklahoma.

Mr. HESS. That is right.

Mr. HÉBERT. And one in California.

Mr. DYKSTRA. Those were military bases, sir.

Mr. HÉBERT. I don't care whose bases they are. The taxpayers are paying for it. They were sources of overhaul; weren't they?

Mr. DYKSTRA. I believe so, yes.

Mr. HÉBERT. They were. So they did have three.

Mr. DYKSTRA. That is right.

Mr. HÉBERT. And they didn't have enough work for the two Government facilities, and yet you say the Air Force wanted to broaden its base?

Mr. DYKSTRA. Yes; I said that. I would also like to state this, that the requirements as we understood them from the Air Force at the time the contracts were granted, were sufficient to provide work for those four installations. I doubt very much that the Air Force would have considered it otherwise.

Now meanwhile, if the requirements have changed, that is something over which we, of course, have no control.

Mr. HÉBERT. Now, Mr. Dykstra, don't you know that the facts are these, that the Air Force resisted to the utmost the giving of this contract to Curtiss-Wright?

Mr. DYKSTRA. No, sir; I do not.

Mr. HÉBERT. You do not know that?

Mr. DYKSTRA. No, sir. That was never represented to me by anyone in the Air Force.

Mr. HÉBERT. All right, do you know that, Mr. Hurley?

Mr. HURLEY. No, sir. Mr. Chairman, I handled the negotiations with the Defense Department. I asked the Defense Department what business they had to go into these plants and if they would give me a list of the business they were going to put in these plants, I would determine as to whether or not I could keep the plants going and bail the situation out. We were given that list. We were told what they were. The decision as to whether we got this kind of business or that kind of business—we had nothing to do with it. Whether they had this plant or another plant, we had nothing to do with. I merely asked, "What are you going to put in these plants and what can we count on if you give us this job?" and based on what they provided, we went ahead.

Mr. HÉBERT. Then, bailing out Studebaker-Packard was not contingent at all on your obtaining defense contracts?

Mr. HURLEY. It was contingent on our getting the volume of business they represented to us would go in those plants. Otherwise we could not have run the plants and otherwise we could not have employed the people.

Mr. HÉBERT. In other words, if the Government, the Department of Defense, had not given you defense contracts, you would not have taken over Studebaker-Packard?

Mr. HURLEY. I don't say that, sir.

Mr. HÉBERT. What do you say?

Mr. HURLEY. There were two problems here. There were Defense contracts and there was the Studebaker-Packard problem. There was a military problem and there was a civilian problem.

Mr. HÉBERT. Now, Curtiss-Wright——

Mr. HURLEY. We might have come out with an altogether different situation if——

Mr. HÉBERT. Curtiss-Wright is doing the overhauling, not Studebaker-Packard?

Mr. HURLEY. That is right, sir.

Mr. HÉBERT. Now, isn't it also a fact that you got this contract for Curtiss-Wright only after you agreed to take over or to bail out Studebaker-Packard?

Mr. HURLEY. The situation, Mr. Chairman, was as I outlined to you. I requested specifically the business that would be made available to the various Studebaker-Packard plants and I said on that basis that I would then try to find a way of saving Studebaker-Packard and a way of getting the production the Government desired.

Based on the statement that the business would go into these plants that the plants could deliver, we then went ahead and invested Curtiss-Wright money and we came up with this program.

Mr. HÉBERT. Based on the defense contracts?

Mr. HURLEY. On the whole situation.

Mr. HÉBERT. Supposing the Government had said you can't have these defense contracts, would you have taken Studebaker-Packard over?

Mr. HURLEY. We would have most likely made some other deal or arrangements for the sale and delivery of the Mercedes-Benz products in America.

Mr. HÉBERT. In order to get the record right, I want to read something and ask for your comment. This is from the Wall Street Journal, issue May 16, 1956. It is headed "Wilson Studies Studebaker-Packard for Possible Defense Work Orders." [Reading:]

Defense Secretary Wilson said he is taking a "special look" at Studebaker-Packard Corp. with a view toward awarding the financially stricken company defense contracts.

We noted Studebaker and Packard, before they were merged, October 1, 1954, each had prime contracts to supply war materials during World War II. He indicated the Defense Department did not want to lose a good source of military supplies.

Mr. Wilson told his press conference this could be called maintaining a broad mobilization base or whatever you like.

However, he said he did not favor taking contracts from one company that is doing good defense work and awarding them to another.

I make the note there that he took it away—I think Mr. Wilson knows something about the automobile business, too, incidentally. He took it away, took this contract partially away from General Electric and gave it to Curtiss-Wright.

Do you have any comment to make on that news item?

Mr. HURLEY. Mr. Chairman, I know no way that you can run an automobile business that is losing $100 million by giving it defense contracts. I know of no way that you can charge the cost of an automobile business that is losing money to Government contracts. So personally I see no relationship between the two. And whatever motivated Mr. Wilson or the Air Force or anybody else, I have no right to comment on. I have no right to speculate on that. All I know is that I looked at a business problem of contracts and work that had to be done, jobs that had to be saved, and came up with an administrative decision that I think was a good one and it is proving to be a successful one and will save money for the Government and for stockholders and all owners and everybody else.

Mr. HÉBERT. But Curtiss-Wright did not get the overhaul engine contract until after it had taken Studebaker-Packard over; is that correct? It is purely a matter of dates.

Mr. HURLEY. How could we, sir?

Mr. HÉBERT. I am not asking you how you could. I am asking you isn't it a fact?

Mr. HURLEY. There is no way you could. There had to be assignment of contracts from Studebaker-Packard. There had to be as-

signment of contracts to the Government. It all had to come after.

Mr. HÉBERT. But Curtiss-Wright overhaul was not a Studebaker-Packard contract. It was a General Electric contract and it was given to Curtiss-Wright after Curtiss-Wright took over Studebaker-Packard; isn't that correct?

Mr. HURLEY. Everything pertaining on this came after.

Mr. HÉBERT. That is all I want. The record speaks for itself.

Mr. DYKSTRA. There is no record of a General Electric assignment to Curtiss-Wright, that I am aware of.

Mr. HÉBERT. They took it over from General Electric.

Mr. DYKSTRA. That is not what we understood. We understood the requirements then existing called for another source.

Mr. HÉBERT. All right. Now, I direct your attention to another article in the Wall Street Journal, issue of January 1, 1956, captioned "Prospects of Curtiss-Wright Aid to Studebaker-Packard 'Not Improved'."

Prospects for an agreement between Studebaker-Packard Corp. and Curtiss-Wright Corp. "have not improved in the past 2 weeks of active negotiations," sources close to the management of Curtiss-Wright said last night.

That was not you.

These sources said extension by Curtiss-Wright of financial aid to the hard-pressed automaker hinges mainly on granting of huge new defense contracts to Studebaker-Packard. Up to now, the auto company has had indications from Washington that it might get a $4 million Army—

listen to this now—

a $4 million Army truck-building contract. This is considered as only a drop in the bucket toward its real need for substantial aircraft or other defense contracts if it is to stay in business.

Do you have any comment to make on that?

Mr. HURLEY. Mr. Chairman, does that say sources close to Curtiss-Wright or Studebaker-Packard?

Mr. HÉBERT. "A source close to the management of Curtiss-Wright."

The Wall Street Journal is a pretty reputable newspaper in my opinion.

Mr. HURLEY. That is completely erroneous, sir. I would be glad to face the man that wrote that article, under oath. There was no such statement made.

Now, there was a contract for trucks in Studebaker-Packard that was about to go in default. They already had it.

Mr. HÉBERT. For trucks?

Mr. HURLEY. For trucks.

Mr. GAVIN. They had the contract.

Mr. HURLEY. And they had the contract. We have since rehabilitated the whole situation and are delivering trucks that Studebaker-Packard could not.

Mr. HÉBERT. I will ask you a little more tbout that truck contract. I just wanted this to be in the record. Now you are under quotes. This is the New York Times, which is a reputable newspaper, I believe. The issue of August 9, 1956:

STUDEBAKER PLAN—CURTISS EXPANDS

QUEHANNA, PA., August 8.—The Curtiss-Wright Corp. has lifted to $200 million a year the amount of defense business that it plans to put into two leased plants of the cash-shy Studebaker-Packard Corp.

The article goes on to say that Roy T. Hurley, chairman and president of Curtiss-Wright—

quashed reports that his company's agreement to help rescue the automobile company hinged on promises of huge new defense contracts.

It continues—

He (Hurley) simply declared that there was no horse trading—that receipt of new defense contracts was never a quid pro quo on which conclusion of the arrangement depended. "I would be a first-class jackass to get myself in that position," he said.

Did you make that statement?

Mr. HURLEY. A lot of it, yes, sir. I repeat it here today. It was a mere problem as to each contract, each plant, and each man's job as to how you find a way to save the job or deliver the merchandise or do whatever is required.

And if you look at the profits to this company, Curtiss-Wright, sir, on that volume of sales you will find it is a rather miserable return for the job that we are doing.

Mr. HÉBERT. Now I understand——

Mr. HURLEY. It is not a generous reward of any kind.

Mr. HÉBERT. I am impressed with your generosity, Mr. Hurley—rather the generosity of the Curtiss-Wright Co. to help out.

Now, Mr. Dykstra——

Mr. GAVIN. I would say it is quite laudable, too.

Mr. HÉBERT. It is most laudable. I am terrifically impressed. They are losing money, doing it.

Mr. Dykstra, did I understand you to say that the switching or the cutback in money value to Curtiss-Wright, due to rehaul of the engines, was nonconsequential, it was a mere bagatelle?

Mr. DYKSTRA. I don't know what you mean by cutback, sir.

Mr. HÉBERT. I mean the cost to the Government of cutting back the General Electric contract and giving it to Curtiss-Wright after it acquired the Packard-Studebaker Corp., was nonconsequential in dollar value?

Mr. DYKSTRA. Sir, I must state, again, that as far as my knowledge exists there was no cutback of a General Electric contract.

Mr. HÉBERT. Call it whatever you want. You have a contract for 500 motors, to overhaul?

Mr. DYKSTRA. That is correct.

Mr. HÉBERT. All right. In giving you that contract for the overhaul of 500 motors, the cost to the Government was a negligible amount.

Mr. DYKSTRA. The entire contract will amount to approximately $3 million. I say approximately because it has yet to be redetermined.

Mr. HÉBERT. Mr. Dykstra, don't you know as a matter of fact it costs the taxpayers $25 million to switch that contract, or part of it?

Mr. DYKSTRA. No, I do not.

Mr. GAVIN. What do you base your facts on, that statement, Mr. Chairman? Just an explanation of it. Tell us how it costs the taxpayers $25 million.

Mr. HÉBERT. I base that statement, Mr. Gavin, on information that I have from a source——

Mr. GAVIN. Give it to us. We want to know. You make a statement that this cutback, in sending this engine business or taking this engine business from the General Electric to the Curtiss-Wright, has

cost the taxpayers—what did you say? How much of a contract was it?

Mr. DYKSTRA. Three-odd million, sir.

Mr. GAVIN. Three million?

Mr. DYKSTRA. Right.

Mr. GAVIN. It would cost—what?

Mr. DYKSTRA. 25, the chairman said.

Mr. GAVIN. $25 million?

Mr. HÉBERT. I said it cost the taxpayers $25 million, and if Mr. Gavin will be very patient during the development of this testimony, he will find out exactly the figures——

Mr. GAVIN. Well, I am always patient. But, nevertheless, when you make a very clear statement, I would like the facts right now. Let's have it now.

Mr. HÉBERT. I will give the facts in my own time, Mr. Gavin. I am making the statement now.

And in making the statement, I want to say this right now, emphatically, that in my own opinion I absolve the Air Force completely of any participation in the loss of this money.

The Air Force resisted—these are the facts in the case. And I am repeating them on reliable authority. Otherwise, I would not do it.

The Defense Department ordered the Air Force to enter into this contract over its protests.

Mr. OSMERS. Mr. Chairman, what do you mean by a reliable authority? Would you mind stating the authority that gave you that information?

Mr. HÉBERT. At this time I am not privileged to do so, Mr. Osmers. I hope to develop it later.

Mr. OSMERS. Well, I think it is very, very unfair to everyone, particularly to the committee, to start talking like a tip sheet here. Who is the reliable authority that gave you the information?

Mr. GAVIN. What are we, as part of the committee, if we can't have the information as well as the chairman?

Mr. HURLEY. Mr. Chairman, may I ask a question?

Mr. GAVIN. Is it proper, whereby you are fortified with the information and the rest of the committee can't have the information?

Mr. HURLEY. Mr. Chairman, may I ask?

Mr. HÉBERT. Wait 1 minute. I will allow you, Mr. Hurley. I think the figures that can be produced under questioning from the Air Force will substantiate the figures that I have quoted. And as I again suggest, I shall develop this in my own way. And I assure the committee that without violating any confidences, which I do have and am in possession of, I will attempt to adduce the proper figures if I am allowed to proceed in the way I want to proceed.

Mr. GAVIN. Well——

Mr. HÉBERT. Order.

Mr. GAVIN. Mr. Chairman, permit me—would the gentleman yield?

Mr. HÉBERT. Not at this time. Let me finish what I am trying to say. I realize what I am saying better than anybody else.

As a matter of fact, the whole proposition was thoroughly discussed and on a high level it was said that Studebaker-Packard could not be allowed to go out of business, that it could start perhaps a depression chain and that something had to be done to save it. Now that is in the Department of Defense, or rather on the Cabinet level.

Mr. GAVIN. Well, the rest of the committee don't get on the Cabinet level, is that it, but you do?

Mr. HÉBERT. And then——

Mr. GAVIN. We are on the committee and we certainly ought to be entitled to it.

Mr. HESS. In good time.

Mr. HÉBERT. I will conduct myself in the way I desire.

Mr. GAVIN. I usually do, too.

Mr. HÉBERT. That after this matter was thoroughly discussed in the Cabinet level, that Mr. Sprague, I think who was the defense counsel—what was his title, John?

Mr. COURTNEY. Excuse me?

Mr. HÉBERT. What was Sprague's title? General Counsel?

Mr. COURTNEY. General Counsel, I understand.

Mr. HÉBERT. General Counsel of the Defense Department, conducted the whole negotiations, handled the entire matter, and the Department of the Air Force was compelled under those directions to enter into this particular phase of the contract.

Now those are the facts as far as I know them, and I have every reason to believe they are accurate. And I intend to have the Air Force here to explain and to give us the dollar value of the cost of that contract, of switching from General Electric—or part of it, from General Electric to the Curtiss-Wright Corp.

The figures will speak for themselves, whether it is $25 million of the taxpayers' money or the admitted $3 million which Mr. Dykstra quotes.

I agree with Mr. Osmers that it is something that is of a very serious nature, as to what we are going to do, in the Government bailing out big business and letting little business go to pot.

Mr. OSMERS. Mr. Chairman, in the line of the statement that you have made, I assume it is not your contention that the $3 million contract to overhaul engines bailed out Studebaker-Packard or put Curtiss-Wright on its feet, or something?

Mr. HÉBERT. No. It is just one of the many facets. I will develop 1 or 2 other contracts as we go along.

Mr. MILLER. Rearrangement.

Mr. HÉBERT. Rearrangement. In other words, my information is that it cost $25 million to do it. It would not have cost them $25 million if General Electric had been allowed to do the superlative job which it had been doing, and, incidentally, was—I forget the exact figures now, but were adding to the overhaul time of the motor, many times over again. They had done a magnificent job and had enough work to keep them busy. And right in the midst of this, when Curtiss-Wright took over Studebaker-Packard, then this particular little drop in the bucket, if you will call it——

Mr. OSMERS. Well, but wouldn't you be the first to admit, Mr. Chairman, that there were a great many other factors in this particular contract that has been mentioned here: (1) A depressed area, for example, and the advisability of having various sources for the Government, the possibility of making this particular line of business competitive, and other factors which have been mentioned.

Mr. HÉBERT. That is right. I would be the first to admit it.

Mr. GAVIN. Would the gentleman yield? The gentleman makes the statement they are bailing out big business to the detriment of

small business. By any stretch of imagination, you wouldn't call General Electric small business, would you?

Mr. HÉBERT. I am not suggesting that General Electric is small business.

Those are the facts as far as I know them, Mr. Dykstra.

Mr. Hurley, you wanted to say something.

Mr. HURLEY. Mr. Chairman, I don't consider Studebaker-Packard a big business. They had a net worth that was very, very small when we took over the problem. They were quite small business, and not big business. And there were a great many small businesses, vendors, involved, and a great many small stockholders, and the numbers of small people involved in that situation ran well over a million. So I think to put the connotation of big business on Studebaker-Packard, sir—you are overlooking something.

Mr. HÉBERT. Of course, that is your opinion, which you are entitled to. Other people would call Studebaker-Packard fairly big business. I want to ask you something else. Now, this contract that you referred to, concerning the military trucks that are being built at South Bend by Studebaker-Packard—what is that; a truck, complete truck? Is that a complete automotive——

Mr. HURLEY. Assembled, complete truck.

Mr. HÉBERT. Complete truck?

Mr. HURLEY. Yes.

Mr. HÉBERT. Do you know the cost of that truck as compared to a similar truck on the commercial market?

Mr. HURLEY. I don't believe there is any similar truck in the market.

Mr. HÉBERT. I mean the engine itself; you know the general assembly. There is, naturally, no similarity. But I mean in the general overall picture of a truck compared to a commercial truck. Would you say that price is comparable to the same type of truck in the commercial field?

Mr. HURLEY. I don't know of any truck that is comparable to it, sir.

Mr. HÉBERT. You do not?

Mr. HURLEY. No.

Mr. HÉBERT. You do not know whether the cost of producing that particular truck is far in excess of what it would cost to produce a comparable truck for commercial purposes?

Mr. HURLEY. Any truck produced to military specifications will cost a lot more than a truck produced to commercial specifications, or any aircraft engine or airplane, or any product, sir.

Mr. HÉBERT. Yes. Anything that the military produces is going to cost a lot more than commercial; we know that.

Mr. HURLEY. Because of the specifications and their requirements.

Mr. HÉBERT. That is right. Because, if it didn't, we would be shocked. Now, I want to talk about the Dart, this antitank missile, that you have. Were any competitive bids solicited—I understand Studebaker-Packard had this prior to your acquisition, supervision of Studebaker-Packard. Do you know whether any competitive bids were given out on that particular contract?

Mr. HURLEY. I don't think, sir, anybody could have bid competitively, to my knowledge. I don't know whether anyone did or did not. Because the knowledge that had made it a very successful missile lies in the hands of aerophysics, and the problem there, as we understood it, was to prevent a loss of time. We took the contract over and built

this new plant in order to make it possible for these men to carry on and complete that job. Whether or not there were competitive bids, I have no knowledge of that, sir. All I know is we took a problem on.

Mr. HÉBERT. You took that particular problem on?

Mr. HURLEY. Yes.

Mr. HÉBERT. You inherited that. I mean it was not handed to you or anything like that?

Mr. HURLEY. Right. What we did was to, again, give Studebaker-Packard money—was to buy from them for cash the things that they had, the money they had put into it. We took over the inventories they had and paid them cash for it. We then put up our money to build the plant at Santa Barbara, Calif., to house the project, to get it underway and make up for lost time.

Mr. GAVIN. The Government didn't put any money in that plant?

Mr. HURLEY. No, sir.

Mr. HÉBERT. That is not a depressed area, either, is it?

Mr. HURLEY. No, sir; it is not, but the men are there, and they are in the California area, and it was a problem of taking care of it in the area where they were located and being able to get them to go to the spot they wanted, and the men, themselves, had selected Santa Barbara. They had, I think, entered into a contract for land, but Studebaker-Packard ran out of money and couldn't provide the money to do it. We just took up the whole mess and completed it, right where it was.

Mr. HÉBERT. That is all the questions I have.

Mr. Courtney—any other member of the committee have any other questions?

Mr. GAVIN. Mr. Chairman, in view of the fact that there is important legislation on the floor which will detain me this afternoon—you are not going to meet this afternoon?

Mr. HÉBERT. No.

Mr. COURTNEY. No; not this afternoon. Not when the House is in session.

Mr. GAVIN. I would move we adjourn now.

Mr. HÉBERT. We will recess until tomorrow morning at 10 o'clock.

(Whereupon, at 11:47 p. m., the subcommittee adjourned to reconvene at 10 a. m. the following day, Friday, July 19, 1957.)

AIRCRAFT ENGINES PRODUCTION COSTS AND PROFITS

FRIDAY, JULY 19, 1957

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS,
Washington, D. C.

The subcommittee met at 10 a. m., Hon. F. Edward Hébert, chairman of the subcommittee, presiding, with the following members present: Messrs. Hess, Gavin, Rivers, Bates, Osmers, and Miller.

Mr. HÉBERT. The committee will be in order.

The Chair wishes to make a statement at this time in connection with the procedure of the hearings.

We anticipate having the hearings on this phase through Monday. The House meets an hour earlier today, which will give us only an hour this morning, which, obviously, cuts our time down.

So the committee will meet tomorrow morning in order to close out the Curtiss-Wright presentation, because we don't want to keep you people here any longer than necessary. We recognize the inconvenience to you, and we want to cooperate as much as possible to get you back to your respective homes.

On Monday, the committee will hear from the Air Force in connection with the matters discussed on yesterday. Because of a very important bill which will come before the full Committee on Armed Services, beginning on Wednesday, this hearing will be suspended until the following Monday.

Mr. COURTNEY. Monday a week.

Mr. HÉBERT. Monday a week, yes, when we will resume and hope to be able to move on through then.

It is imperative that the full committee meet during the next week, on a very, very important bill, and we can't have that conflict.

I just wanted to make that statement for the witnesses, to keep the record straight.

Now members of the committee, following yesterday's, that is the recess of yesterday's hearing, Mr. Hurley spoke to me about matters that had been developed, and took umbrage at some remarks or observations which I had made, and seemed to indicate that the observations or the remarks of the chairman reflected on him as an individual. I assured him that neither the chairman nor any member of this committee intends to reflect on any witness as an individual. Witnesses appearing before this committee, certainly as far as the chairman is concerned, are merely people. I don't care whether their name is Joe Doaks or Tom Smith or anybody else. They mean absolutely nothing to me personally or individually. I discussed the matter also with some individuals who were in the room at the time

and none of them got the same import from the questions that Mr. Hurley got.

However, as has been the practice of the Chair and this committee during its entire existence, I want every witness to be thoroughly satisfied that he has had his day in court. And I want him to have every opportunity to say anything that he wants to say. No witness has been shut off here yet and no witness will be shut off.

So with that explanation, Mr. Hurley, have you anything to say this morning?

Mr. HURLEY. No, sir.

Mr. HÉBERT. You have nothing to say?

Mr. HURLEY. Yes.

Mr. HÉBERT. You feel completely satisfied that you have had your day?

Mr. HURLEY. Up to date, yes.

Mr. HÉBERT. As of up to date you have been treated fairly?

Mr. HURLEY. Yes, sir.

Mr. HÉBERT. That is all.

Mr. OSMERS. Mr. Chairman—are you ready to start with the questioning?

Mr. HÉBERT. Yes, but I think Mr. Hess asked first.

Mr. HESS. Mr. Chairman, in order to clarify a matter that was brought up yesterday, I would like to insert in the record at this point some correspondence which I have had with the Air Force.

If you will permit me to read it—it will take a little time. I have four letters here. I would be glad to read it or insert it in the record.

Mr. HÉBERT. Mr. Hess, what does this pertain to?

Mr. HESS. This pertains to the cutback of the contract with General Electric for the overhaul of motors, at the General Electric plant at Evendale, Ohio, and the awarding of a contract to Curtiss-Wright.

Mr. HÉBERT. Well, the Chair understands that the correspondence that you refer to is the correspondence connected with the subject matter which we were discussing yesterday?

Mr. HESS. Correct.

Mr. HÉBERT. Your request is to read into the record that exchange of correspondence from its origination to its latest development?

Mr. HESS. To a letter which I received yesterday from the Air Force.

Mr. HÉBERT. You may proceed.

Mr. GAVIN. I think we should hear the correspondence.

Mr. HÉBERT. You may proceed.

Mr. HESS. First, let me insert this letter in the record which was dated May 1, 1957, addressed to the Honorable James H. Douglas, Secretary of the Air Force, Washington, D. C.

DEAR MR. SECRETARY: While I was at my home in Cincinnati last week, I received many complaints about the Air Force cutback of a contract with General Electric at their plant in Evendale, Ohio, which is in my district. The contract calls for repairs and overhaul of airplane motors—and the plant is well equipped to handle their contract.

Many of the workmen who have been laid off called upon me to complain, and also the mayor of Evendale—whose letter to me I am enclosing because it gives some specific information on this subject.

I want to protest this matter with all the strength I have, for the action taken is unfair to the community, to the company, and to the individual employees. It is certainly not right to start a contract such as this, and then cut it back in order to give work to another company—the Curtiss-Wright in this instance—which is not equipped as is General Electric to handle this overhaul contract.

I am fearful that favoritism is being played in this particular case, and I would like all of the information the Air Force has as to why a contract was given to Curtiss-Wright and taken away from General Electric.

Please advise me as completely and as promptly as possible the circumstances in this matter, and what steps will be taken to correct the injustice to the people who have complained so bitterly, and with apparent good reason for their complaints.

Kindly return the enclosed letter with your reply.

This is a letter which was sent by me to the Secretary of the Air Force.

On May 15, I received a reply from the Secretary of the Air Force, James H. Douglas. I will read that. [Reading:]

DEAR MR. HESS: This is in response to your letter of May 1, 1957, concerning a reduction in the number of J–47 engines to be overhauled by the General Electric plant at Evendale, Ohio. It will also answer the letter which I understand you addressed to Col. R. L. Kelly of legislative liaison on April 26, 1957, on the same subject.

The jet engine involved is the J–47 which is used principally in our B–47's and F–86's. At the beginning of fiscal year 1957 it appeared that the J–47 engine overhaul requirement would increase substantially during the fiscal year and that the increased rate would continue during fiscal year 1958. Prior to August 1956, all of the J–47 engine overhaul work had been accomplished by two Air Force depots and the General Electric plant at Evendale. The total number overhauled in fiscal year 1956 had been 6,631. The initial estimate of the fiscal year 1957 overhaul requirement was 8,273, an increase of 1,642 over the previous fiscal year. On the basis of this estimate, it was decided that the Air Force should derive the benefit of competition and broadening of its production base by contracting with Utica-Bend Corp., for the overhaul of J–47 engines. The Utica-Bend plant, which is located in Utica, Mich., had previously been used for the manufacture of J–47 engines and contained Government-owned equipment, including test cells, that could be used in the overhaul work.

The initial Air Force commitment to Utica-Bend Corp., was for the overhaul of 500 engines during fiscal year 1957 with the expectation of maintaining an overhaul rate of 100 engines per month thereafter. In view of the Air Force's estimate of its J–47 overhaul requirements, it was not expected that the contract with Utica-Bend would result in a reduced workload at the General Electric plant.

Unfortunately, it is not possible to predict with certainty the Air Force's engine overhaul requirements. At the midpoint of fiscal year 1957, it appeared that the J–47 overhaul requirements for fiscal year 1957 would be increased to 9,180. However, it became apparent later that the life expectancy of the J–47 engine was increasing far more than had been anticipated. This would necessitate fewer engine changes during fiscal year 1957 and would result in the attainment of war reserve stock levels much sooner than had been expected. On the basis of this experience and other factors, the Air Force, on February 1, 1957, found it necessary to revise downward its J–47 overhaul requirement for 1957 to 8,378 engines. This figure now appears to be firm. The same experience has caused a radical recomputation of fiscal year 1958 requirements, and it now appears that the number of engines to be overhauled during the next fiscal year will not exceed 5,110.

In the light of this development, the Air Force had no alternative but to program a reduced J–47 overhaul workload for its contractors and for the Air Force depots. Production under the initial contract with the Utica-Bend Corp. was stretched out, and contract negotiations have been commenced with General Electric to reduce the May and June schedule toward a level more consistent with workload projections for fiscal year 1958. Also, although a final decision has not yet been made concerning the amount of J–47 overhaul work to be performed by General Electric and Utica-Bend, respectively, during the next fiscal year, it now appears unlikely that General Electric's overhaul rate will exceed 100 engines per month.

The Air Force considers General Electric to be one of our most important manufacturers of jet engines. We particularly desire to see that company maintain its position in the engine overhaul field because overhaul experience is useful to a prime manufacturer in the improvement of components as well

as in designing future engines. At the same time, we believe that it is in the best interests of the Government that we preserve a competitive situation in this field.

I regret I cannot provide you with more favorable information.

(Signed) JAMES H. DOUGLAS.

In answer to that letter, I wrote another letter to the Secretary of the Air Force, under date of May 27, 1957. [Reading:]

DEAR MR. SECRETARY: I have read and reread your letter of May 15, 1957, in answer to my inquiry of April 26, 1957, as to why the overhaul contracts for the J–47 engines have been split up in the manner in which you have described in your letter.

Let me recapitulate what I understand you to say:

1. You stated that in fiscal year 1956, 6,631 engines were processed by 2 Air Force depots and General Electric, the manufacturer of the engine.

2. You stated that for fiscal year 1957 the projection was 8,273 overhauls (an increase over the previous year).

3. You stated that it was decided that the Air Force should derive "the benefit of competition and broadening of its production base."

At what time was this decision made; and, more important, what was the cost in dollars of the decision awarding a contract, at a standby facility and to a manufacturer not engaged in production?

4. You stated that on the basis of experience, on February 1, 1957, you had determined that the "projected requirements" for engine overhaul would have to be revised downward.

5. You stated that the same experience led you to conclude that fiscal year 1958 will require overhaul of only 5,110 motors.

6. On page 129 of the hearings of the House Appropriations Committee for fiscal year 1958, Assistant Secretary Sharp in answer to a question by Mr. Scrivner, stated that your estimate of overhaul time requirements had been increased for 100 hours between overhauls to 1,700 hours. Secretary Sharp attributed that to a suggestion made by members of the House Appropriations Committee that manufacturers overhaul their own engines, plus the adaptation of your own actuarial techniques and the fact that the manufacturer of these engines (General Electric) was doing the overhaul. That was in April 1957.

It is difficult for me to believe that the experience information of the Air Force indicating that the 100-hour interval for overhaul had been increased to 1,700 hours, which you say led to your decision, was not known, at least in part, until February 1957.

This much seems certain to me on your own statements: After you entered into the contracts for fiscal year 1957 involving 6,631 motors, you must have developed information that the 100-hour span was too short. You certainly did not have a sudden showing between April 1956 and April 1957 that the span had increased to 1,700 hours. The finger must have been pointing in that direction all that time.

You also knew that the J–47 is pointed to a phase-out. You knew that in 1956 and you definitely knew it in 1957.

Now will you tell me, with a diminishing number of overhauls and the phase-out of this engine facing you, by what logic or economic theory, it stood to the financial benefit of the taxpayers to divide that diminishing workload into 4 instead of 3 parts?

The simplest rule of business is this: The less the workload in a plant, the greater the cost per unit. Yet you are asking me to believe that it was sound business to broaden the base of overhaul sources by opening a brandnew source. To satisfy me on this score and to satisfy any taxpayer, you are going to have to answer these other questions:

(*a*) What was the total cost of the overhaul of the 6,631 engines by separate source, giving the total for each source and the number of engines?

(*b*) What costs have been incurred since that time under the four contracts, giving the number of motors overhauled and the total cost expended on each? When I ask for total costs, I mean every item of cost that has gone into operation of these four plants under these contracts.

To compound your problem, you have not projected a workload of 100 engines for General Electric, the manufacturer's plant, and another 100 at the Utica plant. On such a plan, you must know that the rate per unit will increase.

How do you justify that expense? What do you estimate the unit cost will be at General Electric and at Utica?

Unless you can show me that the rate per unit will decrease, this decision is most certainly not in the interest of economy nor of the taxpaying public.

May I have the answers to my questions?

Signed by me.

In answer to that, there was delivered to my office yesterday by hand a letter under date of July 17, from the Secretary of the Air Force, signed James H. Douglas. [Reading:]

DEAR MR. HESS: I regret having caused you the concern your May 27 letter indicated and will therefore broaden my previous explanation to answer your specific questions. Your recapitulation is accurate through the first five numbered paragraphs of your letter. However, subsequent paragraphs require considerable discussion and explanation.

Secretary Sharp's comments reported on page 129 of the hearings of the House Appropriations Committee for fiscal Year 1958 referred to the increase from 100 hours maximum allowable time between overhauls to the current 1,700 hours maximum allowable time between overhauls. "Maximum allowable time" is the time when engines are mandatorily removed for overhaul on the basis of parts wear, reliability and need for detailed inspections even though no apparent malfunction exists. Only a small percentage of engines reach this maximum time, since a majority are prematurely removed for internal failure, foreign object damage, over-temperature operation, etc. The 100 hours maximum allowable time was established in 1950 and increased to the current 1,700 hours for the J–47–25 engines.

"Maximum allowable time" is not a factor used in computation of requirements. Engine life expectancy (ELE) is the factor used in computing requirements and is calculated quarterly by actuarial methods for such purpose. This factor is well known to all echelons in the Air Force. The maximum allowable time and the engine life expectancy have both increased as a result of continued product improvement of the engine.

The ELE is lower than maximum allowable time since the operating time of all engines removed and returned to overhaul enter into the calculations. The current ELE for the J–47–25 engine used on the B–47 aircraft is 1,050 hours. Other models of the J–47 engine used in other type aircraft have current ELE's varying between 150 to 650 hours. The revision of the ELE on the J–47–33 (F–86D aircraft) in December 1956 increased such expectancy from 225 hours (established in January 1956) to 350 hours for third quarter, fiscal year 1957 and fiscal year 1958 computations. The J–47–17 (F–86D aircraft) ELE increased from 225 to 300 hours during the same period. On the other hand the engine life expectancy of the J–47–25 model, used in B–47 aircraft, has remained constant since January 1956.

Another aspect of the engine life expectancy factor is the wartime application. In the interest of economy it was determined that a more conservative procurement of engines could be effected by establishing the wartime ELE as 95 percent of the peacetime ELE instead of 85 percent used in previous programing. This policy change in February 1957 resulted in a significant reduction in the J–47 overhaul requirements for fiscal year 1957.

It is a fact that as early as 1956 we did expect that there would be an eventual phase-down in the J–47 inventory. This was taken into account in computing our engine overhaul requirements. However, notwithstanding this factor, it was recognized that a greater overhaul capacity would be required because of the introduction into the inventory of the J–57 and J–79 engines which require more frequent and more complicated overhaul. The July 1956 decision to establish Utica Bend was made to meet this increasing total overhaul workload to derive the benefits of competition and broadening the production base.

It is important to realize that in June 1956 B–52, KC–135, F–101, and F–100 aircraft production was at a maximum, portending large-scale J–57 engine overhaul at the USAF depots which also overhaul J–47 engines. At the same time the B–58, F–104 and RF–104 production outlook indicated a buildup of General Electric built J–79 engines. At that time, the requirement for J–79 analytical overhaul to be accomplished at Geneeal Electric and increasing J–57 overhaul to be accomplished at the depots, contributed to the justification for another J–47 facility to accomplish the workloads. Headquarters Air Materiel Com-

mand was authorized on July 10, 1956, to initiate action to establish Utica Bend at a facilitization cost of $1.3 million.

Due to the January 1957 revision of the fiscal year 1957 force structure from 137 wings to 128 wings, B–52 and KC–135 production was held at 15 aircraft per month; F–100 production was stretched out and reduced; F–101B production was reduced; F–104 production was stretched out and reduced and the RF–104's were deleted from the Air Force program. These changes reduced projected J–57 and J–79 engine overhaul requirements, making available unanticipated capacity in the depots for J–47 engine overhaul and reducing the anticipated workload for General Electric.

Thus, our overhaul planning for support of anticipated utilization of J–47, J–57 and J–79 engines exceeded the requirements of the revised programs. This situation was accentuated by flying-hour program reductions and by decrease in the actual number of engine changes.

The significance of all the factors described above, which had an impact on our requirements, became evident in early 1957, many months after the authorization of the Utica Bend facility and subsequent to the January 1957 completion of the first engine overhauls by Utica Bend. As a result of the recomputations, the overhaul programs at the depots, as well as at the contractors' facilities, will be reduced.

The following engine overhaul cost figures are applicable to fiscal year 1956. Government-furnished direct material costs were a little more than $3,000 in each case and are not included in unit cost shown here. Air Force Contract AF 34(601)—2312 with General Electric included overhaul of 1,485 J–47–25 engines at a cost of $8,654,035; unit cost $5,831. During the same period Oklahoma City air materiel area overhauled 1,570 of this model engine at a unit cost of approximately $2,500. This includes only maintenance direct and indirect costs and cannot be compared directly with the more inclusive contractor costs. Cost of overhaul of J–47–13–17–33 engines at San Bernardino air materiel area is approximately $2,000 per engine.

For fiscal year 1957, the contracts with General Electric cover 3,657 engines at a target cost of $20,099,013; $5,496 per engine. This contract is redeterminable, so these costs are not final. The unit cost for Oklahoma City air materiel area and San Bernardino air materiel area depots also applies to fiscal year 1957.

For the initial quantity of 300 engines which Utica Bend will complete by July 1957 the average cost for the first 100 engines is to be $15,046, for the next 100 engines $7,700 and for the final 100 engines of the original obligation the price will be $6,874. These are target figures on a redeterminable contract and therefore may vary at time of final settlement.

Fiscal year 1958 price quotations have not been received from Utica Bend and General Electric; however, it is expected that quotations of General Electric and Utica Bend will be competitive at approximately $6,500 per engine, less Government-furnished parts. Headquarters, Air Materiel Command was advised in April 1957 that follow-on fiscal year 1958 contracts will depend upon Utica Bend's ability to attain a competitive position and provide satisfactory performance.

It is believed that the basis for the decision to broaden the production base was sound at the time it was made. But, as I have outlined above, various circumstances have caused a reduction in the engine overhaul program and, consequently, the workload in the depots.

Sincerely yours,

JAMES H. DOUGLAS,
Secretary of the Air Force.

That is the end of the correspondence.

Mr. GAVIN. Mr. Chairman.

Mr. HÉBERT. Mr. Gavin.

Mr. GAVIN. Evidently, from that correspondence, at the time the Air Force reached a decision relative to Utica Bend they were trying to bring a more competitive position into the industry. Later on, they found their workload was not going to be as great as they estimated or determined at the time they made the decision.

Certainly they must have encouraged Studebaker-Packard to get into the line of business to bring about greater availability of plants and equipment to do these overhaul jobs. Naturally, I presume when a new organization starts, it is a renegotiated contract. The prices,

until they get into production, naturally would be higher than an organization that had been in the field and doing the work.

Now the question is what do you want to do—confine all of it to General Electric? There are other plants that are entitled, in other sections of the country, that are just as important as the General Electric plant.

I don't see anything particularly wrong, from what I have heard here today, on the position of the Air Force. Because to change conditions, to change their programs, change their plans and change their setups—these things happen.

From what I can observe, I feel that the position of the Air Force at the time they reached a decision evidently satisfied them.

Now conditions have changed. However, they had entered into these contracts at the time and no doubt they will be renegotiated satisfactorily.

Just the same as General Electric's contract is going to be renegotiated. But the charge, or the allegation—the statement made yesterday by you, that this $3 million contract was going to cost the Government $25 million. I don't know. That sort of amazed me.

I don't know why Mr. Hurley hasn't something to say about it. Now what do you have to say about the statement?

Mr. HURLEY. Mr. Gavin, the $25 million came as a complete surprise to me. I could find no way that it could be applied to that contract. And I spoke to the chairman after the hearing yesterday and expressed myself so to him.

My information is that actually when the first contracts were awarded to us, the Air Force increased the rate of production at the General Electric plant for a period of time. I may be misinformed on that. I haven't the Air Force records.

But the figures quoted by the Secretary in the letter, I think, Mr. Dykstra, are correct?

Mr. DYKSTRA. Yes, sir.

If I may comment, Mr. Hurley? The figures clearly show that the competitive position has been achieved.

You must understand that at the time Utica Bend entered into the overhaul contract, to the best of my knowledge and belief General Electric was producing engines at the rate of 300 per month, whereas Utica Bend——

Mr. GAVIN. You mean General Electric was overhauling?

Mr. DYKSTRA. Overhauling.

Mr. GAVIN. Yes. You said "producing."

Mr. DYKSTRA. I am sorry, producing overhauls, or overhauling engines at the rate of 300 a month. Now that is what we were advised at the time. Utica Bend was requested to set up on the basis of 100 overhauls per month, which——

Mr. GAVIN. General Electric was having at the time that the Utica Bend contract was awarded—they were doing 300 overhauls a month and this Utica Bend was awarded 100 a month, is that correct?

Mr. DYKSTRA. That is my understand, sir.

Mr. GAVIN. Right.

Mr. DYKSTRA. Now with respect to the costs, Utica Bend contract amounted to only 500 engines, as versus the contract that the gentleman cited for General Electric, which amounted to 1,485 engines.

Mr. GAVIN. Wait a minute.

The contract awarded to you was 500 and the contract awarded to General Electric was how many?

Mr. DYKSTRA. As related by Mr. Hess, 1,485 engines.

Mr. GAVIN. O. K.

Mr. DYKSTRA. That they were performing on.

So consequently, their pricing undoubtedly was based upon that quantity, where as Utica Bend's prices were based on the quantity of 500.

Now had—this is speculation, but had we had the opportunity to bid on that same quantity and at that same production rate, there is no question about the fact that the figures would have been immediately competitive.

But in the entire production, assuming that Utica Bend enjoys a follow-on contract, there is no question in my mind whatsoever that our prices will be competitive or better than General Electric. I think this arithmetic that has been cited here today is along those lines.

I might state one more thing.

We have been put in a very poor condition here to an extent because as mentioned yesterday we are citing figures on a contract that has not yet been redetermined or even finished.

Mr. GAVIN. You mean your contract?

Mr. DYSTRA. Yes, sir.

Mr. GAVIN. So you haven't really determined actually what the comparative would be between General Electric or Utica Bend?

Mr. DYKSTRA. No, sir, and I will state right at this time, which destroys to an extent as you will appreciate our negotiating, that the first 100 engines as cited by Mr. Hess relative to the Utica Bend contract will not cost $15,000 per unit but will be a lesser amount due to the cost savings we have effected.

I will not state that amount because I still have to negotiate this item with the Air Force.

Mr. GAVIN. Mr. Hurley, you have something to say?

Mr. HURLEY. Mr. Gavin, the unfortunate thing from my point of view was that the contract was tagged with a $25 million rearrangement charge.

Mr. GAVIN. Yes.

Mr. HURLEY. That was, I think, an unfortunate thing and it was something—there is no way we can tie to anything that we——

Mr. GAVIN. The chairman said he will lead up to that later on, to prove or substantiate his contentions. So no doubt we will hear about that later.

Mr. OSMERS. Mr. Chairman, I am a little upset that we have taken half the time—I never knew these letters were so long, and they dealt entirely with Air Force questions, and I think they should have been read while we had Air Force witnesses present——

Mr. HÉBERT. We have had no Air Force witnesses.

Mr. OSMERS. I say they should have been held until we had.

Mr. HESS. They are part of the record.

Mr. OSMERS. According to the title of this investigation, Mr. Chairman, it is an investigation of aircraft engine production costs and profits. If we are going to go and investigate a contract out in Cincinnati, it is perfectly all right with me.

However, could I inject a question or two back on the main subject, Mr. Chairman?

Mr. HÉBERT. You may.

Mr. OSMERS. All right.

Mr. HÉBERT. One second. I want to make this comment, Mr. Osmers.

Mr. OSMERS. I wish you would.

Mr. HÉBERT. Mr. Hurley injected this matter into these hearings. The committee did not. Mr. Hurley devoted an entire page of his printed presentation to explaining how philanthropic the Curtiss-Wright people were in taking over Packard-Studebaker—or Studebaker-Packard. The committee did not inject the matter into the hearing. It having been injected by Mr. Hurley, himself, it became a subject of discussion for the committee and will be a subject of discussion until it is threshed out in its entirety.

Mr. OSMERS. Oh, I think it is very properly a subject of discussion. But I don't think we can hold four wiitnesses of a producer while the committee haggles over Air Force policy, when there are no Air Force witnesses before us to either substantiate or deny charges that are made, such as the one you made, yourself, last night, about a $25 million figure from some reliable source.

I don't know what the source is yet and maybe we will hear about it.

Now yesterday, if I can get back to the subject matter, Mr. Hurley had a chart—do you still have those charts here, Mr. Hurley?

Mr. HURLEY. Yes, sir; I do.

Mr. OSMERS. You had a chart which I do not see in your booklet on cost reduction. As this is something very vital to the investigation, I wonder if we could see that chart again, Mr. Chairman?

Mr. HURLEY. This chart here, sir [indicating].

(The above-mentioned chart is Chart O on p. 2384.)

Mr. OSMERS. Now, it is not clear in my mind exactly how the figure of $107,049,000 is developed. Would you give us that background again, Mr. Hurley?

Mr. HURLEY. Mr. Osmers, we have a policy in Curtiss-Wright of a constant cost reduction of material, of labor, of overhead, of overtime—of all of the items of cost. It keeps an organization sharp and on its toes and it gets results. For example, last year material prices went up. I insisted—and I would be glad to provide it for the record—that we find ways of reducing material costs, in spite of the increase in material prices.

We paid higher wages. I insisted that we find ways of utilizing labor more effectively, make the job a little easier, get the quality up and get the cost down.

The total of all of those reductions appear in this $107 million. It is not an easy job. And in order to dramatize it, we reduced it to fighter planes, and then bombers, and pilots, and so forth.

I have another chart here that gives an indication of what that means directly in engines. We have, Mr. Osmers, maybe 500 sheets like that in Curtiss and Wright, or more. We keep them up constantly and we have for years. Here is the price of the engine, pounds of thrust, at $16. And here is the effect of our cost reduction to material, labor, overhead, and so forth, overtime, power, and all of the things that go into it.

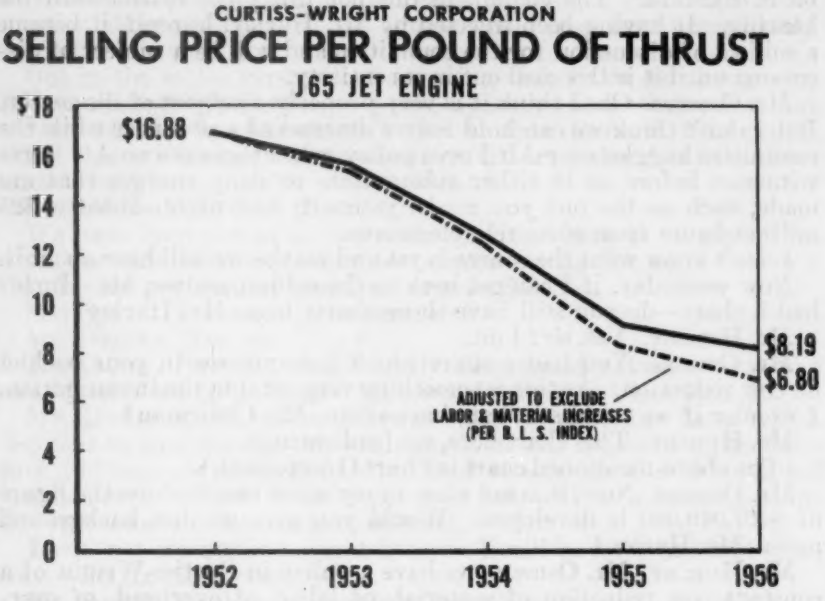
We made a study, for example, of power in New Jersey, and we effected a saving of some $40,000 a year in power, with the Public Service Company of New Jersey.

This shows the difference in the increases of labor and material. But we still made that reduction.

Now, the average of this, from $16 to $8 is about $4 a pound of thrust. And I would say in this period of time is a cost reduction of the order of maybe $160 million on engines and possibly another $30 million or $40 million on spare parts. And it applies to jet engines only.

(Chart Q follows:)

CHART Q



Mr. HURLEY. Now, this is a very, very important subject, I think, to the committee and to the Government and to the taxpayer and everyone.

Mr. OSMERS. May I ask you this question, Mr. Hurley——

Mr. HURLEY. Yes, sir.

Mr. OSMERS. Though it may not be—you may not have the information. Does that chart generally reflect the industry, other producers and manufacturers—do they have a corresponding reduction in the selling price per pound of thrust?

Mr. HURLEY. I don't have this chart for the reduction in cost of pound per thrust for other manufacturers. But we do have operating ratios that we can get from the public records.

Mr. OSMERS. Yes.

Mr. HURLEY. And those records show us that Curtiss-Wright is leading in cost reduction. I am quite sure that we can establish that.

Now, covering this data, we have, for example, here the Air Force challenge—may I have that?

Mr. DYKSTRA. Yes.

Mr. HURLEY. The Air Force challenged whether or not we made that saving and we put together all this data and presented it to them and it was accepted. The net result was the $107 million came down to $105 million in that year.

Mr. OSMERS. I see.

Mr. DYKSTRA. Because of subsequent cancellations of some engines. Otherwise, the savings would have been effected but the engines were not produced to make the savings.

Mr. HURLEY. Mr. Osmers, this is an important subject and it is one that you could spend days or weeks on. Because in order to get a cost reduction of this kind, you have to have labor on your side. I think we succeeded in doing that in New Jersey.

Mr. MILLER. Would the gentleman yield?

Mr. HURLEY. You have to work with the material suppliers to find ways of getting costs down.

Mr. OSMERS. I would like to ask one more question and then I will yield my situation to the chairman.

Is there any way in which the Government, primarily in which Congress, can encourage cost reduction in the hardware that it buys?

Mr. HURLEY. I think, sir—it was Mr. Rivers that raised the same question yesterday, if my memory serves me right, and I gave it considerable thought last night. I have come up with a suggestion that may be bold and may be out of order. It is a complex subject. It is one in which hundreds of millions of dollars can be saved. I would be glad to offer my services for a period of time as a consultant to present the data and present suggested changes in the procurement regulations that I am confident will result in savings in the industry running into hundreds of millions of dollars.

Mr. OSMERS. You do feel, though, Mr. Hurley, that the Government can save hundreds of millions of dollars on the buying of military hardware through improved procurement regulations?

Mr. HURLEY. Yes, sir. I am very sure of it. I have no doubt whatsoever about it.

Mr. OSMERS. That is all.

Mr. HURLEY. I am perfectly willing to demonstrate that it can be done. I am perfectly willing to cooperate in doing it.

Mr. OSMERS. That is all, Mr. Chairman.

Mr. MILLER. I just wanted to clear up one thing that I am a little vague on. You showed on this chart a saving of $107 million. Then Mr. Dykstra said something that confused me. You said something about this was a projected saving if you had——

Mr. DYKSTRA. No, sir.

Mr. MILLER. What was it you said about this being a projected saving? You got as far as to say if there were a certain number of engine cutbacks——

Mr. DYKSTRA. Mr. Hurley cited a figure of $107 million.

Mr. MILLER. $107,049,000.

Mr. DYKSTRA. That is correct; and produced a document which verifies $105 million, by contract and contract items, and therefore products. The difference between the $107 million on the chart and the $105 million in the document is what I attempted to explain.

Mr. MILLER. That is what I would like to have you explain.

Mr. DYKSTRA. The difference results from the fact that subsequent to the reduction of costs, certain engines which the Air Force no longer requires were canceled. Therefore, it was not possible to make savings on a nonexistent product.

Mr. MILLER. Oh.

Mr. DYKSTRA. We are working on it, though.

Mr. MILLER. This is an old, antiquated chart you have shown us?

Mr. DYKSTRA. This is not an antiquated chart; no, sir.

Mr. MILLER. Then why doesn't that chart show the true figure of $105 million?

Mr. DYKSTRA. It was a true figure and in all probabilities at this time the amount is greater. You must realize that there is a continuing production of engines.

Mr. MILLER. There is a question, then. That is what gets me confused.

What I would like to have you or Mr. Hurley clear up is the fact that you come in and tell us about this chart and show $107 million and then you slip down to $105 million. Frankly, in my mind you can tell me and Mr. Hurley can very firmly tell me, but I would like to get at the basis of the fact. I am not prejudiced against you or anyone else. But in my mind it confuses me. Although I am maybe a minor member of the committee, I am still a member of it.

Now, there is a strike on you as far as I am concerned. I don't know whether you charts are just on paper—whether they are good or whether they are bad. It is on your own admission and not mine. I am not charging it.

Mr. HURLEY. Mr. Miller, may I reply to that?

Mr. MILLER. Tell me: Don't you think you ought to consult with him to make sure you get your figures straight?

Mr. HURLEY. I am sure of what I am talking about.

Mr. MILLER. You weren't sure about the $107 million. He had to come in and correct it.

Mr. HURLEY. Mr. Miller, I am just as sure today of its accuracy as when I made this chart.

Mr. MILLER. Why didn't you make it $112 million?

Mr. HURRLEY. It could be made $112 million. I will tell you why. The difference between the 2 is 2 percent and when you get a Government auditor looking at contracts and then a company auditor, a Government auditor will disallow this and a company auditor will allow that. You will find a 2 percent difference. If you send in orders you may find it is 106 or 109 million dollars. That happened every day.

Mr. MILLER. Let me say this to you, Mr. Hurley, and Mr. Dykstra. You come in and rationalize your statements after you trip yourself, as you have here, at any time you want, but until you begin to show some better reasoning than you have given me, in my mind it is still—I am still a bit confused and I still am a little bit worried that maybe you are confused and the figures aren't exactly right.

Now, I could understand if you came out and said this chart was an old chart and we didn't have time to correct it or something. I would be more inclined to expect that than to accept the explanation that has been given.

I have no further questions.

Mr. HURLEY. Do you think a 2 percent variation is a reason for questioning the honesty of a witness in presenting a chart to you?

Mr. MILLER. Well——

Mr. DYKSTRA. Mr. Hurley, I would suggest that we introduce this for the record [exhibiting document].

Mr. MILLER. You make your conclusions and I will make my decisions.

Mr. BATES. Mr. Chairman.

Mr. HÉBERT. Mr. Bates.

Mr. BATES. Mr. Chairman, I do hope this information will be supplied for the record.

Mr. HURLEY. I will be very happy to submit it.

Mr. BATES. So we can understand this chart and the factors that enter into it.

Mr. HURLEY. Yes, sir.

Mr. BATES. I wonder if we go back to the chart just a minute. This is just on one engine, the J–65.

Mr. HURLEY. Yes, sir.

Mr. BATES. So you have a continued run on this engine, which automatically would reduce costs as you improve your methods and as you spread your depreciation over a larger number of units?

Mr. HURLEY. Well, the units were somewhat consistent in this period, and the cost reduction was made in spite of a consistent production. Then production began to fall off, and at a smaller number we still made savings.

Mr. BATES. But over a period of time, of course, you might have depreciated all or a good portion of your equipment. It still wouldn't be reflected necessarily on your operating statement; would it?

Mr. HURLEY. Mr. Bates, the way we arrive at something like this: You don't arrive at this by looking back at what happened a year before. What we do in Curtiss-Wright is meet in November—for example, we will meet in November—and we will set up targets for cost reductions next year, on all of the products we sell to the Government. We do it every year, then we look at those costs every Monday morning to see that our people are getting cost savings. And I can bring you in charts here by items, by parts, by material, by labor, by overhead, by power, and show you a continuous, constant drive to reduce costs.

Mr. BATES. I am sure you do that. Otherwise you wouldn't know how to bid.

Mr. HURLEY. That is right.

Mr. BATES. On items that are coming out. But as long as you are going to include the breakdown of that in the record, I don't think I have any questions further on that point.

But yesterday in your presentation here, on page 3, you did touch on a point that I think is of vital importance to the committee. Point 2 says:

Procurement regulations tend to eliminate competition, create vested interests, and retard engine development.

A while ago you offered your services to the committee for consultant purposes, toward the end of eliminating these problems which have developed here.

I wonder if you would just touch briefly upon that at this time.

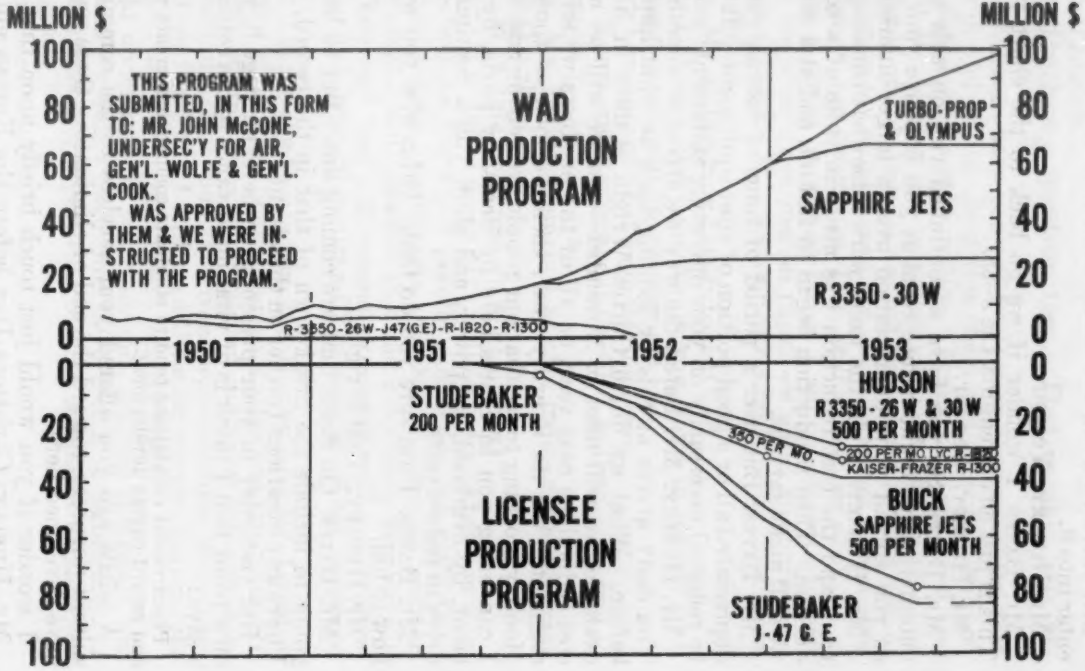
Mr. HURLEY. Christmas Day before the Korean effort started, I developed this chart, sir, on my living room floor. As I saw the airplanes, I knew the Air Force needed and I knew the vendors that were talking to them were talking to us. It looked to me as though this was the expansion they had to have and it looked as though our engines had to expand from about 5 million a month to 100 million, or 20 times, and the licenses, 90.

(Chart R follows:)

CHART R

WRIGHT AERONAUTICAL ENGINE DIVISION

PRODUCTION & LICENSEE PROGRAM



Now that is a program that is out of this world. It shows the degree of unpreparedness we had when the Korean episode came.

This program was submitted in this form to Mr. John McCone, Under Secretary for Air, General Wolfe and General Cook, and was approved by them and we were instructed to proceed with the program. Now that was the kind of a job that was thrown on us, without facilities.

When that was given to the company—I will show you the condition of machine tools. [Chart shown.]

(The above-mentioned chart is Chart I on p. 2377.)

Here are the machine tools the company had. Here are are age of them. You will see that the vast majority of them were 8 to 10 years old. And the defense of the United States depended on those machine tools, to get that program going. And here is the new ones that came. You will remember the hysteria there was in expanding the machine tool industry. Here was the emergency and here is when the machine tools came in. If this was a major war, sir, and broke out on a broad front, I think we would have been shellacked. And I don't hesitate to say that. And that is why I am bothered about the engine business.

Wherever these machine tools are delivered or put that is where the vested interest lies. The Air Force has to come back to this to get them. And it is completely unfair to Air Force procurement people and Navy procurement people and Department of Defense and the industry. I can go on for a month and show you statistics.

I served in the Pentagon, in procurement. I served as a consultant to the Air Force, and I had made a study for the Secretary of Defense. I am completely and well prepared to demonstrate the problem.

Now, technologically speaking, this country in warfare is moving more rapidly. We talk glibly about an Air Force in being, doing a job. And the Air Force in being is becoming obsolete by hours, and we talk about not needing an industry to replace it. It is completely wrong, sir.

Mr. BATES. What do you suggest we do?

Mr. HURLEY. Now here is the first chart I had. Here again is an expansion. Then in here the industry is criticized. Then it is expected to do this. Then this is what happens again. At the wrong time. This is happening at a time when the military services are faced with competition that is the toughest they have ever faced. They never had any real competition in the past. This time they are faced with it. The only way, sir, I think you can correct this situation is by a strong industry. And you can't build a strong industry on a 2 or 3 percent profit and on the poorest depreciation allowances of any industry in the country. There it is, sir. [Chart shown.]

(The above-mentioned chart is Chart G on p. 2375.)

Mr. HURLEY. That is the record. Everybody knows that those lake carriers will be in use for 20 or 30 years. And everybody knows the Air Force facilities will be obsolete in 5 years or 3 years or even they may be obsolete in 1 year. That is what our military forces are faced with.

I have a chart here where I showed the condition the industry is in compared to all other industry [chart shown].

(This chart is Chart P on p. 2385.)

Mr. HURLEY. This industry of ours is in the same shape that the chain stores are in and the food processing industry, and I think it is a mistake. I think it is one that warrants attention. It is one that I am concerned about, sir. It is the only reason I am with Curtiss-Wright. If it wasn't for that concern, I would still be with the Ford Motor Co.

Here is the aircraft industry, way down here. This is net profit to percentage of sales. This is percentage of net worth to sales. We are down here in the area where the chainstores are. The chainstores have no productive problem at all, no plant requirement. They go in and rent a building and they tell the canners and the foodstuff people to send in the canned goods and they will sell it for them. Companies are glad to give it to them on consignment, at times.

C is the meat packing. The same kind of an industry.

You are never going to have a strong aircraft industry as long as that exists.

If you move that up here, sir, you will cut your costs 25 or 30 percent; and I can demonstrate, sir. I can support it, and I am willing to work with the committee as a consultant to demonstrate it.

Mr. BATES. What effect has this had upon the aircraft industry?

Mr. HURLEY. It has had the effect that the Air Force can never be combat-ready. It can't get the airplanes and the engines it wants quick enough. The lead time is too long and the costs are too high.

Mr. BATES. Are you saying we don't have enough productive capacity?

Mr. HURLEY. No, sir; we don't.

Mr. BATES. I know some people suggest that perhaps we got 100 percent capacity too much.

Mr. HURLEY. We don't have it of the right kind for the new things that are required. Things are becoming obsolete, sir, very fast.

Mr. BATES. Well, we have enough capacity for what we have in mind today.

Mr. HURLEY. I don't think so. I think the thing that is right ahead of us is a requirement for things that we don't have today. We don't have the capacity and the plants to build them. We are going to wait until we get the contracts. Whoever get the contracts are then going to go to the Government and ask for the facilities, after they get the contracts.

Mr. BATES. Does the industry share your feelings in this matter?

Mr. HURLEY. I don't know, sir, but as an American citizen I hope they do.

Mr. BATES. What do you suggest we do right now?

Mr. HURLEY. I would suggest a competent group study this situation and prove it right or prove it wrong. I know that the Secretary of Defense, Mr. Forrestal, was terribly concerned about it. I discussed it with him at great length.

Mr. BATES. He had——

Mr. HURLEY. You have a very competent Secretary over there now. I have a feeling that he is very concerned about it.

Mr. BATES. The situation is quite a bit different than it was when Secretary Forrestal was here.

Mr. HURLEY. Well, sir, when the last war occurred, the big world war—I can tell you something about what happened. When this was required [indicating on chart], I went to the Secretary of War, on the instruction of the head of my company, and I was told that they needed antiaircraft fuses to the tune of 45,000 a day, and that the watch industry told them they could produce 8,000 a day. We took a contract to produce the difference and make up for it at the last minute. When the last war started, we needed gas-operated automatic cannons for airplanes. We didn't have them. And the story of how we got them is quite a story, and what we did in the way of cost reduction.

Now we are moving into this same area [indicating on chart]. We were in it in 1950. If there had been a major war, there would not have been the things we needed.

Mr. BATES. You indicated it is not right for the aircraft industry to be in the same level with the chain stores, that the margin of profit should be greater; is that correct?

Mr. HURLEY. In order to build up the strength of the company and facilities, machine tools, and so on and so forth.

Mr. BATES. Then you indicated after that it was your apparent conconclusion that great savings could be effected?

Mr. HURLEY. Yes, sir.

Mr. BATES. So you are saying that the Federal Government ought to, through its contracts, give a higher margin of profit, and in doing that——

Mr. HURLEY. For results.

Mr. BATES. They would get greater savings?

Mr. HURLEY. For results.

Mr. BATES. At what point, Mr. Hurley?

Mr. HURLEY. For the savings.

Mr. BATES. At what point?

Mr. HURLEY. For the savings, after the savings are accomplished.

Mr. BATES. Isn't this a constant problem?

Mr. HURLEY. Cost reduction?

Mr. BATES. No; this problem, general problem which we are facing here. It is one that is constant. You might put more money into the thing, but as you indicated, we are faced with a constant problem of obsolescence. So we get a new change there. I don't know if you will ever reach that point which you indicate where you are going to——

Mr. HURLEY. The new things that are coming, sir, that are ahead of us—industry recognizes where we are going and what we are heading into. And a company that is competitive in supplying its own facilities, if it doesn't anticipate those things, is not going to be ready. And industry would anticipate those things and would get the type of people and the type of machines it needed to do the job when the job came up. It does that in the automobile industry, in the steel industry, in the copper industry, the electric industry—you name it. But in the aircraft industry, on which the defense of the country is based, you say wait until the contract is signed and then we will provide facilities.

Mr. BATES. I don't want to take up any more time of the committee. Of course, there is a constant fight in the aircraft industry right now. You give them more money and you have conflict between the various companies.

But will you give us for the committee, Mr. Hurley, a little breakdown on this discussion which we have just had, toward the end of indicating to the commitee how, if the profits were increased, it would ultimately result in greater savings to the taxpayers?

Mr. HURLEY. May I keep it on the basis that the costs be reduced and then the profits be increased? I would like to maintain myself in that position.

Mr. BATES. If you can spell out how we can give increased profits and at the same time save money, I think we will appreciate that breakdown.

Mr. HURLEY. Thank you.

Mr. BATES. That is all.

Mr. RIVERS. Mr. Hurley, I want three things to happen in this hearing. You get your story over to the committee and to the American people, through the committee.

Now you very generously offered your services to effectuate some of the things which implement your philosophic standpoint on the economies involved.

Like Mr. Bates, I want to see the hearings contain something that is concise and along the lines which you have suggested.

The first thing: I want to get you to give your side of the story to this thing I saw in the morning paper. If you don't think it has been farily presented, I want to see the committee have what you think is a fair rebuttal to what the chairman has been alleged to have put in the release to the press, which I read this morning for the first time.

Then I was intrigued by your reasoning. I recognize that you are regard as a man of authority in your industry. From what I heard about you, you seem to get along pretty well. You know what you are talking about.

Now, yesterday, I asked you about the frustration in this endless redtape of the Government. I would like, if you could, for you to give me or the committee—certainly I would like to have a copy of it—some of the things in the way of proof. It will serve us and serve the country.

Then the concentration of machine tools in a small area for production. I have in mind that you have in mind 1 of 2 manufacturers that have concentrated what few machine tools are available or potentially available in case of emergency. I would like for you to give me something on that. I think it should be known.

Mr. HURLEY. Yes, sir.

Mr. RIVERS. In fairness to you and in fairness to us.

Now you go ahead any time you want to interject.

And then the thing which Mr. Bates has raised, where the taxing statutes should give you more leeway by way of obsolescence. You mentioned the ore carriers and the air engine manufacturers. In fairness to you, I think you should have an opportunity to get those into the record.

If you could arrange those things, I would certainly like to have them. It intrigues me.

Mr. HURLEY. Mr. Rivers, I would be glad to do it.

I would like to tell you this. On these machine tools——

Mr. GAVIN. Mr. Chairman. At that point, would the gentleman yield?

Mr. RIVERS. Be glad to.

Mr. GAVIN. I have to go and be on the floor of the House.

Pardon me for interrupting you, Mr. Hurley. I would like to have a representative, Mr. Chairman, of the General Electric come before this committee to ascertain whether or not the General Electric feels that an injustice has been done them in the awarding of the contract to the Utica Bend or the Studebaker. That is No. 1. Will you handle that, please?

Mr. HÉBERT. We will take it under consideration.

Mr. HURLEY. Mr. Rivers——

Mr. GAVIN. Wait a minute. Not under consideration.

Mr. HÉBERT. Agreed. I say——

Mr. GAVIN. I want to know whether or not General Electric feels that an injustice has been done when this contract was awarded to Utica Bend. They were the ones that were affected. We should have a representative from General Electric here to tell us what they think.

Now the second one, Mr. Hurley. We have heard from the mayor of Evendale, however, as to how the contract affected the economic life in that community and the labor community in that community. I want you to get a letter from the mayor of Utica Bend as to how the award of that contract affected the economic life in that community and the labor community in that community.

Mr. HURLEY. Yes, sir.

Mr. RIVERS. Mr. Chairman, I won't yield any further.

I want to say: I don't want to be a conscious or an unconscious party to a black eye being dealt your company by any statement made by the chairman or anybody else.

Now I want you to give for the committee your side of this so all parties may be treated fairly. Nobody wants anything else.

Mr. HURLEY. Mr. Rivers, could I make a very short statement on this?

Mr. RIVERS. Yes, sir.

Mr. HURLEY. The Air Force recognized these machine tools are old. The Air Force has given me a contract to determine how to get better machine tools. We published a machine tool book, that the Air Force has paid for, for 3 years now. It shows how to cut metal 3 or 4 times as fast as is being cut by machine tools.

But here is what disturbs me, sir. Do you know where those machine tools are in use?

Mr. RIVERS. That is the point I am coming to.

Mr. HURLEY. In making automobiles.

Mr. RIVERS. All right, sir.

Mr. HURLEY. Not aircraft, because the company can go ahead and buy them.

Mr. RIVERS. That is represented there with the shaded [referring to chart on display]. You want it represented over here with these solid lines.

Mr. HURLEY. That is right, and still better ones.

Mr. RIVERS. From what I understand, that broadens your base.

Mr. HURLEY. And it cuts your costs and it improves your quality.

Mr. RIVERS. Yes, sir.

Mr. HURLEY. And it cuts your lead time. It does all the things you want done.

Mr. RIVERS. I want you to present that to the committee, that side. What you are talking about makes sense to me. I am not in the same business you are in. I run a windmill.

That makes sense to me. I want to see you get your day in court and a fair one.

Mr. HURLEY. Thank you.

Mr. RIVERS. I am serious about it. I believe you may have something here. I want you to be sure that your side of the story will be given to this committee.

Mr. HURLEY. Yes.

Mr. RIVERS. Because that is the business we are in. The chairman is activated by the same lofty motives. All of us are. We don't want to unconsciously give your company a black eye, or anybody's company. That is my position.

And anything that you want to see go into this record—implement it and expand it. If you will turn them over to me or anybody, they will go in. I want that in here. Because this is a very vital thing. There are only a very few people in this business. The things you are talking about have to be done somewhere along the line.

Mr. HURLEY. Yes.

Mr. RIVERS. We won't have the luxury in the next war to prepare. We don't have that, they tell me.

Mr. HURLEY. Mr. Rivers, that is the real concern. That is my real concern, Mr. Rivers, that we continue to have what we have.

Mr. RIVERS. That is all, Mr. Chairman.

Mr. HÉBERT. Mr. Hurley, will you come prepared tomorrow to submit to the committee a list of all defense contracts given to Curtiss-Wright after you acquired—whatever control it is you have over Studebaker-Packard Co., and indicate in each one of those contracts which contracts were in existence at the time with other companies or with the Studebaker-Packard Co.

Do I make myself clear, on the information we want?

Mr. HURLEY. Can we do that by tomorrow morning?

Mr. HILL. It would be very difficult.

Mr. DYKSTRA. It will be extremely difficult. You say all contracts of Curtiss-Wright. Curtiss-Wright is a vast organization.

Mr. HÉBERT. Wait. I said all contracts, defense contracts to Curtiss-Wright awarded after the acquisition of Studebaker-Packard.

Mr. HURLEY. I don't see how we can do that by tomorrow morning.

Mr. HÉBERT. Take your time. You will supply that to us?

Mr. HURLEY. Later on.

Mr. DYKSTRA. Yes. But it couldn't be done by tomorrow morning, Mr. Chairman.

Mr. HÉBERT. No. In other words—you understand the request?

Mr. DYKSTRA. Yes.

Mr. HÉBERT. I want the list of contracts and their dollar value.

Mr. DYKSTRA. Yes.

Mr. HÉBERT. The list of contracts and dollar value, awarded by the Defense Department to the Curtiss-Wright Co. after it acquired control or supervision, whatever you want to call it, of Studebaker-Packard.

Mr. HURLEY. Is this all divisions of the Curtiss-Wright, sir, or just the engine division, or all of it?

Mr. HEÉERT. All divisions. In other words, any money, defense money that went into the contract from the Defense Department to Curtiss-Wright, after the Studebaker-Packard arrangements were made. And indicate which of those contracts were either in existence—in other words, the type of contract we are talking about with the General Electric, where there was a cutback, where the whole contract was not cancelled out but only a portion of it was taken away from General Electric and given to Curtiss-Wright.

Mr. DYKSTRA. Sir, we would have no knowledge of such a transaction. We can't give you that. We have no knowledge of a cutback. We received a contract with the Air Force.

Mr. HÉBERT. I am making myself clear as to what I want. If you can't supply it, you can't supply it. I am not asking you to do the impossible.

Mr. HESS. Mr. Chairman.

Mr. HÉBERT. Yes.

Mr. HESS. Couldn't you give the contracts as the chairman set out here, and also those contracts that might have been transferred from Studebaker-Packard to your supervision?

Mr. DYKSTRA. Yes.

Mr. HURLEY. If you only want those related to Studebaker-Packard, we can do that in a few days. If you want the other, you are asking us for weeks of work.

Mr. HÉBERT. No, I am not trying to put you under any undue stress.

In other words, I just want to evaluate for the committee's benefit the dollar value, or number, either—both of them go hand in hand—of the contracts awarded to Curtiss-Wright after the Studebaker-Packard arrangement was made——

Mr. DYKSTRA. Yes.

Mr. HILL. And also the cancellations, too.

Mr. HÉBERT. The cancellations——

Mr. HILL. Reductions.

Mr. HÉBERT. The cancellations also.

I believe that is a fair request.

Mr. HURLEY. Mr. Chairman, it was put on a broader basis than just the one to Studebaker-Packard. That is the interpretation we must put on your words. Really, it is a tremendous job. Because we are in many, many areas and in many, many fields.

Mr. DYKSTRA. You are encompassing spare parts contracts for engines or propellers sold many years ago.

Mr. HESS. Just a year's time. It is from July 1956, to July 1957.

Mr. DYKSTRA. August 1956.

Mr. HESS. All right.

Mr. HURLEY. We have 19 divisions and we are in all sorts of things. We are not a pure aircraft company, you know. We are in automotive equipment, marine equipment, railroad equipment. We are in all sorts of things. That throws on us a load that is quite different than on an ordinary aircraft company. If you want it just to those contracts related to the Studebaker-Packard Corp., that is a much easier thing to do.

Mr. HÉBERT. You would know what the Studebaker-Packard Corp. contracts were. I mean that is a simple matter.

Mr. DYKSTRA. Yes.

Mr. HÉBERT. That is just a matter of transfer, that is all. But the thing that I am interested in is how much more Government business did Curtiss-Wright get after they took over Studebaker-Packard. If it is such a Hurculean task, I don't want to ask you to do it.

Mr. HURLEY. On the broad basis it is quite a task and it is going to contain a lot of things I am sure the committee will not want after they get it.

Mr. HÉBERT. Well, then, let's reduce it down to a reasonable request. I want to be reasonable.

Mr. HURLEY. Shall we try to do that and make a suggestion as to what we think will meet your requirements?

Mr. HÉBERT. Certainly. You submit what you think is the proper thing, in the minimum amount of time, because I do not want to place upon you an undue burden that will not be of any use to the committee.

Mr. RIVERS. Mr. Chairman, may I ask a question? This inquiry has to do with cost—mainly cost.

Mr. HÉBERT. That is right.

Mr. RIVERS. And the proper utilization of the taxpayers' money.

Along the line of what Mr. Hurley has been talking about, I certainly want some kind of a document or a brief or whatever you want to call it, along the things that can save some money. For instance, you said there is red tape in procurement. I am sure some time during the hearing I want to get that in.

Mr. HÉBERT. You asked——

Mr. RIVERS. I don't want to interfere with the Chairman's request, but I would like to have that some time during the hearing.

Mr. HÉBERT. You asked Mr. Hurley for that.

Mr. RIVERS. I don't want to be unreasonable and ask for something you can't do.

Mr. HURLEY. I would like to make a request for cooperation in this area, if I may. I have taken on a job with Studebaker-Packard. The one element that makes that job most difficult to do it the maintaining in the minds of the employee of Studebaker-Packard and the dealer and his employees and the vendors and everything else, as to whether or not Studebaker-Packard is going to exist.

We have made a tremendous effort to try and establish the fact that Studebaker-Packard is going to be successful, and it will.

I would hope that you do everything you can to cooperate in the area of not creating doubts in the minds of the people as to whether or not that is going to be a successful venture.

I think the $25 million figure has thrown a little bit of a load on me, where I have to go out and reestablish a certain amount of confidence again in some areas.

Mr. RIVERS. That is why I wanted to answer that statement.

Mr. HURLEY. That to me is the one thing that bothers me. I have gone so far as to talk to newspaper publishers and say, "Why do you compare Studebaker-Packard, with a net worth of a few million dollars, with General Motors? Why do you keep drawing that terrific camparison? Why don't you let General Motors run its business and make its money and we will run Studebaker-Packard as a small business and make money and keep people on the payroll and maybe we will surprise the big boy and give him a little competition along the line?"

I have been spending a great deal of my time, away from the job I should be doing, to reestablish confidence in that company and its people and its dealers and everything else. I have talked to wives. I have gone around the country, in all the cities of the country. I talked to 700 dealers personally.

Mr. RIVERS. That is why I made the statement yesterday, that I hope the day would never come where we would only have the Big Three life in the business. I drive a Big Three automobile. But if we ever get these little fellows out of business, business is out of business.

Mr. HURLEY. Yes.

Mr. HÉBERT. I mean you understand now, within reason. You will use your judgment on that.

Mr. HURLEY. Yes, sir.

Mr. HÉBERT. Because I am sure you and I both understand the information I want.

Let me say on the closing note this, in connection with what Mr. Rivers said. I tried to make it clear at the very beginning and I always tried to clear that this forum is never closed to you or anyone else that appears before this committee. When you leave that stand, I want you to be satisfied that you have been able to say everything you want to say.

Mr. HURLEY. Yes.

Mr. HÉBERT. My only concern is getting all the cards on the table, as we always have done in this committee. The door is never shut. When you leave you are going to be satisfied by your own admission that you have been given every opportunity.

Mr. HURLEY. Yes.

Mr. HÉBERT. The committee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 11:15 a. m., the subcommittee adjourned until 10 a.m., Saturday, July 20, 1957.)

AIRCRAFT ENGINE PRODUCTION COSTS AND PROFITS

SATURDAY, JULY 20, 1957

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS,
Washington, D. C.

The subcommittee met at 10 a. m., the Honorable F. Edward Hébert, chairman of the subcommittee, presiding with the following members present: Mr. Hess, Mr. Brooks, Mr. Gavin, Mr. Cunningham, Mr. Bates, Mr. Hardy, Mr. Osmers, and Mr. Miller.

Mr. HÉBERT. The committee will be in order.

Mr. Courtney, a request was made of the Air Force for certain papers in connection with the transaction involving Studebaker-Packard and Curtiss-Wright.

Have those papers been delivered?

Mr. COURTNEY. They have been delivered, Mr. Chairman.

Mr. HÉBERT. Will you please proceed on it?

Mr. COURTNEY. I have here a letter of transmittal with 11 enclosures, which are separately identified. Two enclosures were classified documents, 8a and 10, and they have been removed, and secured in the subcommittee files, and upon their removal all the other documents which I have in my hand are unclassified.

Mr. Chairman, the letter of transmittal reads:

This is in response to the memorandum I received from your special counsel, Mr. John J. Courtney, dated July 18, 1957, in which he requested that the subcommittee be furnished with certain records relating to the Studebaker-Packard and Curtiss-Wright Corporations. I am enclosing herewith copies of relevant documents which I believe will facilitate your inquiry. Copies of these same documents have been furnished the Senate Preparedness Investigating Committee. Notice that enclosures 8a and 10 are classified Confidential.

I am also forwarding you (enclosure 11) a narrative report on the same subject which the Office of the Secretary of Defense prepared and submitted to the same subcommittee. Certain attachments to the report pertaining to the Army and Navy are not immediately available.

I regret that time does not permit furnishing you with more suitable copies of these documents.

Maj. Gen. JOE W. KELLY,
Director, Legislative Liaison.

Now, Mr. Chairman, the enclosures consist of the full Air Force file.

The first enclosure is a letter signed by J. J. Nance, on the letterhead of the Studebaker-Packard Corp. dated August 2, 1956, to the Secretary of the Air Force as follows:

Studebaker-Packard Corp. has for some time been endeavoring to reach a solution to its financial and other problems. We believe you are familiar with the losses incurred in recent years. I should add that losses for the first six

months of 1956 aggregate $35 million. Working capital is now reduced to $30 million as of June 30 and is estimated at $26 million as of July 31. As to defense work, as you know, the Corporation has just commenced performance of subcontracted production work for Ford Motor Co. with respect to J–57 jet engine parts, as well as other defense assignments. It is clear that a solution to our problems must be found in the interests of assuring continuity of this defense production work and the preservation of an adequate mobilization base, as well, of course, as in the interests of Studebaker-Packard and its stockholders.

As a solution, a program with Curtiss-Wright Corp. has been negotiated involving substantially the following:

(a) A 12-year lease of the corporation's Chippewa and Utica-Bend Corp., a wholly owned subsidiary of Curtiss-Wright for a rental of $25 million payable in advance;

(b) A 3-year advisory management agreement pursuant to which Curtiss-Wright will advise the corporation in all management areas;

(c) The sale to Curtiss-Wright of the corporation's investment in Aerophysics Development Corp. for a purchase price of approximately $1,800,000;

(d) The transfer of certain defense-production contracts, certain related inventories and assumption of certain liabilities with respect thereto by Utica-Bend;

(e) The revision of the corporation's credit agreement with banks so as to extend maturities and eliminate covenants which would create a default; and

(f) Revision of the corporation's loan arrangements with insurance companies so as to eliminate covenants which would create a default.

Our board of directors has approved this entire program and we are informed that the Curtiss-Wright board of directors (as well as that of its wholly owned subsidiary, Utica-Bend Corp.) has likewise approved the program. The 20 banks in the bank-credit group and the 3 insurance companies parties to the above-mentioned loan agreements have also approved this entire program.

We think that the most practical way of accomplishing the transfer of the J–57 parts production from the corporation to Utica-Bend is to terminate Studebaker-Packard's purchase orders from Ford. Upon such termination, temporary arrangements for continued parts production in the Studebaker-Packard Detroit plants, where it is now being conducted, can be made until Curtis-Wright has made appropriate preparations at the Chippewa plant for the continuance of such production.

Accordingly, the undersigned requests that, upon effectiveness of all the arrangements set forth in the second paragraph of this letter, all outstanding purchase orders received by the undersigned from Ford be terminated. The settlement of such termination shall be on the basis of a purchase by Utica-Bend of termination inventory and tooling owned by Studebaker-Packard, the assumption by Utica-Bend of commitments, the transfer of Government and contractor owned property to Utica-Bend and otherwise pursuant to a proposed agreement between Utica-Bend and Studebaker-Packard, and at no additional cost to Ford or to the Government. The relevant provisions of said proposed agreement are set forth in exhibit A hereto.

Now, Mr. Chairman, I believe we might interpolate the exhibit in the record, the summary of the contents of the exhibit having already been read in the body of the letter.

Mr. HÉBERT. Expedite it, Mr. Courtney, and make it all a part of the record, but you don't have to read everything, except to summarize.

Mr. COURTNEY. I don't want to embark on my own, Mr. Chairman.

Mr. HARDY. You mean you are not able to summarize?

Mr. COURTNEY. I have had some very bad training. [Laughter.]

Mr. HÉBERT. All right, continue, Mr. Courtney.

(The exhibit referred to is as follows:)

EXHIBIT A

EXCERPTS FROM PROPOSED AGREEMENT BETWEEN STUDEBAKER-PACKARD CORP. AND UTICA-BEND CORP.

2. The seller agrees to sell, and the buyer agrees to purchase, such inventories (consisting of supplies, raw materials, work-in-process, and semifinished and finished parts), and regardless of where located, as the buyer may from time to time determine is in good condition and usable by it in the performance of any defense contracts. The purchase price of such inventories shall be their cost to the seller or market value at the date of purchase, whichever is lower. In the case of work-in-process, and semifinished and finished parts, the term "market value" shall mean the standard cost plus overhead (if not included in standard cost) and the general and administrative percentage, as contained in the quotations on which the articles were contracted to be sold, with appropriate adjustments to reflect the amount of work then completed. It is the intention of the parties hereto that the buyer will purchase all such inventories which are in good and usable condition, and which are capable of being finished at satisfactory cost, to meet the requirements and then current specifications of the defense contracts contemplated by said program. The buyer shall not, however, be required to purchase any obsolete or scrap inventories, or any items which, although in good condition, may not be capable of being made into a satisfactory finished part at satisfactory costs, or which, regardless of condition, may be in excess of the reasonable requirements for the performance of such contracts. The buyer shall determine what inventory to accept or reject, but in exercising its judgment, it will act reasonably and in good faith and be guided by the foregoing principles.

3. The seller agrees to sell to the buyer such equipment, machine tools, machinery, jigs, fixtures, gages, and other special tooling owned or on order by the seller, and regardless of where located, which the buyer may determine is necessary to it in its performance of any defense contracts (including testing), and which the buyer may from time to time select for purchase and which at the time of selection are owned or on order by the seller; provided, however, that the buyer will not select items which would interfere with the seller's production. The purchase price of each item so selected by the buyer shall be its fair value as of the date of such selection, as agreed upon between the parties.

4. The seller will also transfer to the buyer and permit the buyer to remove, without any payment to be made by the buyer therefor, any items which are the property of the Government, or of any contractor of which the seller is a subcontractor, which the buyer may deem useful in the performance of any defense contracts, subject to any requisite approvals by the Government or by any such contractor. In such event the buyer will account to the Government or to such contractor, as the case may be, for any item so transferred to it, to the same extent as the seller would have been required to account. The seller shall also transfer to the buyer, without any payment therefor and as part of the consideration for the other matters provided for in this contract, all items which may relate to or be used in connection with the performance of any of the assigned contracts and which when purchased were not placed in inventory, but were charged to expense, including without limiting the generality of the foregoing, such items as grinding wheels, perishable tools, gloves, safety glasses, stationery, and the like.

5. Where any item selected by the buyer pursuant to the provisions hereof is located in either the Utica or Chippewa plants, then such items shall be sold to or acquired by the buyer in place. Where the item to be sold or acquired, as aforesaid, is located in any other plant of the seller, then the buyer shall pay the cost of removing, packing, and shipping such item to the location selected by the buyer, and representatives for the buyer shall have access to the seller's

property for such purpose. All equipment, machine tools, machinery, jigs, fixtures, gages, and other special tooling, and other items, including inventories, not purchased by the buyer and which are located in either the Utica or Chippewa plants shall be removed by the seller and payment for the cost of such removal made in accordance with the provisions of said lease.

* * * * * * *

8. The buyer will assume, as of the effective date, all outstanding contracts or purchase commitments or orders of the seller which are directly and solely applicable to the assigned contracts, subject, however, to the buyer's right to examine the terms of each such contract or commitment to ascertain whether, in the opinion of the buyer, it is not in its best interests, in which event the buyer reserves the right to refuse to assume such contract or commitment. It is the intention of the parties hereto that the buyer will assume all such outstanding contracts, purchase commitments and orders covering items of the kind referred to in paragraph 2, provided however, that such items are usable for, are not in excess of the requirements of, and meet the then current specifications of, the assigned contracts, and, where applicable, the other criteria set forth in paragraph 2, and provided further, that the price for such item is not in excess of the then current market price therefor, or if there is no general market price for such item, the price is fair and reasonable, and that the applicable contract, purchase commitment or order does not contain any provision which is not a customary one and which is contrary to the interests of the buyer. The buyer shall determine which contracts, purchase commitments or orders it will accept or reject, but in exercising its judgment, it will act reasonably and in good faith, and be guided by the foregoing principles. In the event that the buyer shall, in its sole discretion, assume any indebtedness or other liability of the seller, then the amount of such indebtedness or other liability shall be credited against the amount of the purchase price to be paid by the buyer hereunder.

Mr. COURTNEY. Enclosure No. 2 is dated August 6, 1956.

Memorandum for the Chief of Staff
Subject: Studebaker-Packard J–57 engine parts production problem and Curtiss-Wright development program

1. In order to execute the Air Force portion of programs discussed by the Secretary of the Air Force with the Secretary of Defense and various members of the Air Staff, the following actions will be taken:

a. Request the Ford Motor Co., under terms satisfactory to them, to terminate their outstanding purchase orders with the Studebaker-Packard Corp. for J–57 engine parts and to issue a cost-plus-fixed-fee (CPFF) subcontract to the Utica-Bend Corp. for the completion of this work. The fixed fee for the work should be 6 percent of the difference between the face value (approximately $19 million—

You want to put those figures on the board. Face value. And put "face value J–57 contract."

Then put on the opposite side of J–57 "50 percent."

of the terminated purchase orders and 50 percent of the price paid by Utica-Bend for the termination inventory. Also request Ford to place additional CPFF orders for J–57 parts with Utica-Bend in the quantity required for delivery from that source during the period ending December 31, 1957, in order to meet Ford's delivery schedules. The fixed fee for these additional orders will be 6 percent of the prices for identical parts contained in the terminated purchase orders with Studebaker-Packard Corp. The fee on such additional orders for parts of a different kind from those covered by terminated purchase orders will be 6 percent of the estimated cost of such parts, which cost will, for the purpose of fee determination, not exceed the average price of like items to be delivered during the same periods from other sources. Also request Ford to make payments to Utica-Bend under the CPFF subcontract in accordance with procedures outlined in the Air Force procurement instruction. Advise Ford that the Air Force will furnish Utica-Bend such additional tools and equipment as are determined by the Air Force to be required for the production of the J–57 parts. Also advise Ford that the Air Force will amend Ford's fixed-price contracts to provide for reimbursement to them of additional costs they will incur as a result of these CPFF orders with Utica-Bend.

Mr. Chairman, there is no face value given for that.

Mr. HARDY. Mr. Chairman, is somebody going to interpret that and tell us what that means? I can't follow that.

Mr. GAVIN. I don't get it either. What is the objective for this material we are introducing into the record now, Mr. Counsel?

Mr. COURTNEY. Mr. Gavin, I was directed by the chairman to obtain from the Department of Air Force the files relating to the contracts of Curtiss-Wright, one with respect to the J–47 engine and other contracts which have been spoken of here and which were introduced as a part of Curtiss-Wright's presentation on page 30 of its brochure.

This is the response.

Now, Mr. Gavin, and to the members and as the chairman can see, this is not a small production item. It will take some time until the whole of the transaction is unfolded.

So I know of no place to begin but at the beginning and end at the end.

Mr. HARDY. Mr. Chairman, if I could get back to my question.

Mr. HÉBERT. Yes.

Mr. HARDY. I am not questioning the procedure that is going through here, but I was just wondering if there was some way that we could get a little bit of comprehension of what this thing all adds up as we go along. Now the part we have just been talking about—I frankly haven't the remotest idea of what we are talking about. Maybe we can get it interpreted.

Mr. HÉBERT. Mr. Hardy, it has been the subject before the committee for the previous 2 days.

Mr. HARDY. I understand that, and I tried to follow a little bit of the previous testimony. But what I am talking about is that we get a whole lot of statements in here about Ford and Utica Bend and what they are going to do. I would just like, if we could, to get a little bit of idea as to what this particular phase of it we just had presented means, that is all.

Mr. COURTNEY. Mr. Hardy, I think I may say to you, if I interpret this document correctly—and I have read it just once—this is a summary, that which I am reading is a summary, by Dudley C. Sharp, which presumably outlines—I take it from the other documents I have read, outlines—the general nature of the agreement that was reached with the Secretary of Defense, by these interested parties, which was in turn implemented by the Department of the Air Force.

Mr. HARDY. Of course, if you haven't had an opportunity to review that thing and study it pretty carefully, then you can't very well tell us what these different little facets of it mean.

Mr. COURTNEY. I wouldn't want to summarize all of the parts.

Mr. HARDY. That is all I want to know, Mr. Chairman, at this time. I am going to want to have somebody be able to analyze this thing and tell us what all these little steps in there add up to. Because it is awful hard to follow.

Mr. COURTNEY. Well, Mr. Hardy, we have arranged that Mr. Fogo will put some of the data, as much as we can extract, and put it in the proper order on the blackboard there. So the basic figures we are discussing will be before the members of the subcommittee.

Mr. HARDY. It is awful hard to follow along here and you hear 6 percent of a certain figure and 50 percent from somewhere else. You don't know what in the world it all comes out to. That was the only

point. I was just hoping that maybe there might be some concise statement as to what this thing, the whole paragraph that he just read, means, that is all. If there isn't——

Mr. COURTNEY. I don't have anything more concise than what the Secretary has said.

Mr. HARDY. That certainly isn't very concise there.

Mr. COURTNEY. Now, (*b*)—if I might continue, Mr. Chairman.

Mr. HÉBERT. Yes, Mr. Courtney.

(*b*) Provide the Utica-Bend Corp. with a facilities contract for not more than $12 million to cover certain plant rearrangement costs which will be involved in the establishing of a more efficient production facility for J–57 parts manufacture by the moving of such production from Detroit, Mich., to South Bend, Ind., or Utica, Mich. The plan for such movement shall be approved in advance by the Ford Motor Co. to assure continuity of delivery of contracted parts to the Ford Motor Co. in accordance with contracted delivery schedules.

Mr. HÉBERT. The committee will be in recess for just a few minutes. Will you come up here, Mr. Courtney?

Mr. COURTNEY. Excuse me.

(Pause and committee confers.)

Mr. HURLEY. Mr. Chairman, may I make a comment, please, sir?

Mr. HÉBERT. Wait. Come up here. Talk to me, first, please.

Mr. HURLEY. I can be of a great deal of help in this situation.

(Mr. Hébert confers with Mr. Hurley.)

Mr. HÉBERT. The committee will stand in recess.

Mr. COURTNEY. Members will retire to the next room, please.

(Whereupon, at 10:32 a. m., the subcommittee recessed until 11:15 a. m. of the same day.)

Mr. HÉBERT. The committee will be in order.

Mr. COURTNEY. Mr. Chairman, to resume at the direction of the subcommittee with the memorandum and then to summarize the related documents which it is suggested be made a part of the record——

Mr. HÉBERT. Mr. Courtney, before you continue there, the Chair wants to make this statement on behalf of the committee.

The committee has agreed that the document which Mr. Courtney was reading from will be completed at this time. After that, Mr. Courtney will then summarize the other documents which he has in his possession and which were given to this committee by the Air Force upon official request of the subcommittee, and will put the documents in the record at this point, without reading the documents completely.

They will, of course, become public property at that time. They will be available to Mr. Hurley. The complete record will be available. Mr. Hurley will be given every opportunity at his own request to comment on those documents and to make any statement that he cares to make.

All right, Mr. Courtney.

Mr. COURTNEY. Mr. Chairman, there may be some overlapping. I was on paragraph (*b*) of the memorandum for the Chief of Staff from Assistant Secretary of the Air Force Dudley C. Sharp.

To resume on paragraph (*b*):

Provide the Utica-Bend Corp. with a facilities contract for not more than $12 million to cover certain plant rearrangement costs which will be involved in the establishing of a more efficient production facility for J–57 parts manufacture by the moving of such production from Detroit, Mich., to South Bend, Ind., or Utica, Mich. The plan for such movement shall be approved in advance by the

Ford Motor Co. to assure continuity of delivery of contracted parts to the Ford Motor Co. in accordance with contracted delivery schedules.

(c) Issue a letter contract to the Utica-Bend Corp. for the overhaul of 500 J–47 engines during fiscal year 1957 under terms and conditions that serve the interest of the Government.

(d) Indicate the intention of the Air Force to enter into contracts with the Utica-Bend Corp. for the overhaul of J–47 engines at the rate of 100 per month during fiscal year 1958 and 1959, subject to the availability of funds and under terms and conditions acceptable to the Air Force.

(e) Provide the Utica-Bend Corp. with a facilities contract in the amount of approximately $1.3 million to provide the capability required for efficiently overhauling J–47 engines at the rate of 100 engines per month.

(f) Issue a letter contract to the Curtiss-Wright Corp. for the establishment of a high altitude engine test facility at the Curtiss-Wright owned site at Quehanna, Pa., at the estimated cost of $39 million—

Now, there is a pencil note here which is on the reproduction which I have. It is marked "now 50"—

this facility to be for the primary purpose of experimentation on ram-jet engines, and for such other purposes as may be designated by the Air Force. Preliminary designs for this facility to be approved by the Air Force prior to contracting for architectural and engineering studies. This facility is to be a Government-owned facility, and the land on which it is to be constructed is to be deeded by Curtiss-Wright to the Air Force. The facility is to be so arranged that it can be, in the future, operated for the benefit of the Air force, by Curtiss-Wright, or by other contractors; Curtiss-Wright to agree that, while it is operating this facility, it will conduct such tests as directed by the Air Force on any equipment designated by the Air Force.

(g) Provide the Curtiss-Wright Corp. with a letter from the appropriate official to signify the intention of the Air Force to enter into contracts over the next 3 years with the Wright aeronautical division for the development of the WTF–10 turbofan-type engine. This letter should also indicate the Air Force will issue by July 25, 1956, or as soon thereafter as possible, a letter contract in the amount of $2.2 million to cover development work on the WTF–10 engine in the calendar year 1956. It should be further stated that the work contemplated should reach a total of approximately $63 million, but that continuation of this development work will depend upon progress toward a desired powerplant being satisfactory to the Air Force. Further, this letter should signify the Navy's participation in this program. The Air Force has been assured by the Secretary of the Navy that the Navy will supply one-third of the funds required in this development program.

Signed "Dudley C. Sharp," signature and typewritten identification.

Now, Mr. Chairman, I will attempt to summarize the remaining contents of the file which has been handed to the subcommittee.

The document which I first read was enclosure 1. The document which I have just completed is enclosure 2.

The next, Mr. Chairman, is an amendment of contract under section 611 of the First War Powers Act, authorizing an increase in contract amount, dated August 6, 1956, in connection—the first reference is—

Reference is made to my memorandum to you on the subject Studebaker-Packard J–57 Engine Parts Production Problem and Curtiss-Wright Development Program dated August 6, 1956—

the date which I have read.

(The document above referred to is as follows:)

AUGUST 6, 1956.

Memorandum for the Chief of Staff.
Subject: Authority to amend J–57 contracts with Ford Motor Co.

1. Reference is made to my memorandum to you on the subject Studebaker-Packard J–57 Engine Parts Production Problem and Curtiss-Wright Development Program dated August 6, 1956.

2. Pursuant to title II of the First War Powers Act, as amended (50 U. S. C. App. 611), Executive Order No. 10210, and "Regulations Governing the Exercise of Certain Authority Granted by Title II of the First War Powers Act, as amended, and Executive Order No. 10210 Issued Thereunder," approved by the Deputy Secretary of Defense on July 17, 1951, I hereby determine that it will facilitate the national defense to amend existing fixed-price contracts with Ford Motor Co. for J–57 engines to provide for reimbursement to Ford Motor Co. for costs incurred by it because of its purchase on a cost-plus-a-fixed-fee basis from Utica-Bend Corp., at the request of the Air Force, of parts for J–57 engines to be delivered during the 17-month period ending December 31, 1957, such reimbursement to be limited to the amount by which the costs incurred by Ford Motor Co. because of the said purchase from Utica-Bend Corp. exceed the prices in purchase orders now in effect between Ford Motor Co. and Studebaker-Packard Corp. for identical parts or, in the case of parts of a different kind from those covered in the said purchase orders, the average prices of like items from other sources.

3. You are requested to effect the necessary contractual arrangements in conformity with the foregoing determination.

DUDLEY C. SHARP.

Mr. COURTNEY. The next document is a letter from Col. W. A. Davis, Director of Procurement and Production Office, Deputy Chief of Staff, Materiel. The letter appears to be undated. It is marked as enclosure 4.

(The document above-referred to is as follows:)

DEPARTMENT OF THE AIR FORCE,
HEADQUARTERS UNITED STATES AIR FORCE,
Washington, D. C.

FORD MOTOR CO.
Dearborn, Mich.

(Attention: Mr. John Dykstra, Vice President.)

GENTLEMEN: The Air Force has given careful consideration to the proposal outlined by Studebaker-Packard Corp. in its letter to the Air Force, copy of wihch is enclosed, and has determined that the proposal is in the best interest of national security.

In accordance with our discussions of this subject with you, this is to inform you that the Air Force approves of the following actions which we understand Ford Motor Co., Studebaker-Packard Corp., and Utica-Bend Corp. are prepared to take:

(1) As requested by Studebaker-Packard Corp., you will terminate all outstanding purchase orders now held by Studebaker-Packard Corp. relating to the manufacture of parts for J–57 engines. Upon such termination, Studebaker-Packard Corp. will sell to Utica-Bend Corp. all usable termination inventory and tooling now owned by Studebaker-Packard Corp. at a price and under terms in accord with the provisions set forth in the enclosed letter from Studebaker-Packard Corp., which provisions are approved by the Air Force. Beyond this sale, the termination will be at no cost. In addition, Studebaker-Packard Corp. will transfer to Utica-Bend Corp. at no cost the Government-owned tooling utilized for the manufacture of J–57 parts. Utica-Bend Corp. will thereupon effect an immediate move of the work now being performed on J–57 parts at the plants of Studebaker-Packard Corp. in Detroit, Mich., to the Chippewa plant to be leased by Utica-Bend Corp. at South Bend, Ind.

(2) As requested by the Air Force, you will enter into a new cost-plus-a-fixed-fee subcontract with Utica-Bend Corp. for completion of all the work which is subject of the purchase orders now in effect with Studebaker-Packard Corp. The fixed fee for this work will be 6 percent of the difference between the face value (approximately $19,900,000) of the terminated purchase orders and 50 percent of the price paid by Utica-Bend Corp. for the termination inventory.

(3) As requested by the Air Force, you will place additional cost-plus-a-fixed-fee orders for J–57 parts with Utica-Bend Corp. in the quantity required for delivery from this source during the period ending December 31, 1957, in order to meet your production schedules. The fixed fee for these additional orders will be 6 percent of the prices for identical parts contained in the terminated purchase orders with Studebaker-Packard Corp. The fee on any such additional orders for parts of a different kind from those covered by terminated purchase orders will be 6 percent of the estimated cost of such parts, which cost

will, for the purpose of fee determination, not exceed the average price of like items to be delivered during the same periods from other sources.

(4) You will make payments to Utica-Bend Corp. under the cost-plus-a-fixed-fee subcontract in accordance with the procedures outlined in Air Force procurement instruction.

The Air Force understands that any additional orders which you may issue to Utica-Bend Corp. under which deliveries are scheduled to be made after December 31, 1957, will be on a fixed-price basis, and negotiated in good faith by both parties on terms competitive with those of other responsible subcontractors of like parts, including prices, delivery schedules, quality, and other pertinent factors.

The Air Force will furnish to Utica-Bend Corp. such additional machine tools and equipment as are determined by the Air Force to be required for the production of J–57 parts.

The Air Force recognizes that the costs of J–57 parts delivered by Utica-Bend Corp. during the 17-month period beginning August 1, 1956, may be higher than the average costs of like parts from other Ford Motor Co. subcontractors due to transfer of this work from Studebaker-Packard Corp. to Utica-Bend Corp. with the attendant start-up problems and retraining of personnel required. Further, since current contracts for J–57 engines with the Ford Motor Co. are on a fixed-price basis, it will be equitable to provide relief to Ford Motor Co. to the extent that it incurs such increased costs. However, such relief will not be provided on those fixed-price orders with Utica-Bend Corp. on which deliveries are scheduled to be made subsequent to December 31, 1957.

In consideration of your termination of the aforementioned purchase orders with Studebaker-Packard Corp. and the replacing of such purchase orders by a cost-plus-a-fixed-fee subcontract with Utica-Bend Corp., the Air Force will reimburse Ford Motor Co., for costs incurred by it under the cost-plus-a-fixed-fee subcontract and the cost-plus-a-fixed-fee orders with Utica-Bend Corp. for J–57 parts to the extent that such costs exceed the prices in the purchase orders now held by Studebaker-Packard Corp. for identical parts or, in the case of parts of a different kind from those covered in the said purchase orders, the average prices of like items from other sources.

The Air Materiel Command will be instructed to provide for Air Force audit of Utica-Bend Corp. costs in connection with the administration of the cost-plus-a-fixed-fee subcontract outlined above.

Very truly yours,

W. A. DAVIS,
Colonel, USAF, Director, Procurement and Production Office, Deputy Chief of Staff, Materiel.

Mr. COURTNEY. Enclosure 5 is a letter from John Dykstra, vice president and group executive, Ford Motor Co., to the Department of the Air Force, which was enclosure 5.

FORD MOTOR CO.,
Dearborn, Mich., August 24, 1956.

Re J–57, Studebaker-Packard.

DEPARTMENT OF THE AIR FORCE,
Headquarters USAF, Washington, D. C.

(Attention: Col. W. A. Davis, Director, Procurement and Production Office, Deputy Chief of Staff, Materiel.)

GENTLEMEN: We acknowledge receipt of your letter dated August 6, 1956, wherein you have outlined a desired program for the substitution of Utica-Bend Corp. in lieu of the Studebaker-Packard Corp. as a parts supplier under our J–57 engine program at Chicago. We have reviewed your letter, together with the letter of Studebaker-Packard Corp., dated August 2, 1956, attached to your communication, and are desirous of cooperating with the Air Force concerning this shift in sourcing in the best interest of national security.

At our solicitation, Studebaker-Packard Corp., under date of August 10, 1956, has assured us that the prerequisites to termination, as set forth in the second paragraph of the Studebaker-Packard letter of August 2, have been accomplished, and that the termination action may proceed with due dispatch. A copy of this letter is attached for your information.

On the basis of preliminary discussions with representatives of both Studebaker-Packard Corp. and Utica-Bend Corp., we are planning to effectuate this change in sourcing at the end of this month. A no-cost termination settlement agree-

ment consistent with the objectives outlined in your letter of August 6, will be negoiated and executed between Ford Motor Co. and Studebaker-Packard Corp., effectuating termination as of midnight, August 31, 1956, and a new subcontract with Utica-Bend Corp. will be negotiated and executed between Ford and that company effective September 1, 1956.

The contemplated resourcing action, as outlined in the preceding paragraph assumes that appropriate instructions implementing your letter of August 6 will be issued to us by the procurement contracting officer for our contracts with the Air Force covering the production and delivery of J–57 engines.

We wish to assure the Air Force that all reasonable action, including vendor assistance to the Utica-Bend Corp., will be taken by us to accomplish delivery of J–57 engines as required by the Air Force. If any acute problems develop in this area, we will apprise you of such situation.

Yours very truly,

JOHN DYKSTRA,
Vice President and Group Executive.

Mr. COURTNEY. The next is enclosure 6, Mr. Chairman, as to which I think it is only necessary to introduce the first two pages into the record. The remaining pages are more or less standard Government contract clauses.

This is a letter contract AF 33(600)–33631, amount: $4,800,000.

It is marked: "FCR: Exempted; Property Class: None. Department of the Air Force and Utica-Bend Corp.

"Contract for: Facilities for the J–57 Program", issued out of Wright Field."

Negotiated by W. K. Sheehan.

"This instrument has been negotiated pursuant to section 2 (c) (10)"—

(The document referred to follows:)

LETTER CONTRACT BETWEEN DEPARTMENT OF THE AIR FORCE AND UTICA-BEND CORP., UTICA, MICH. (CONTRACTOR)

Contract No. AF 33(600)–33631
Amount: $4,800,000 (debit).
FCR: Exempted.
Property class: None.
Project No. 1013A.

Contract for: Facilities for the J–57 program.
Place: Wright-Patterson Air Force Base, Ohio.

ADMINISTRATIVE INFORMATION

Office of USAF Administration: Chief, Indianapolis Air Procurement District, 7th floor, Test Building, 54 Monument Circle, Indianapolis, Ind.

The sums to be expended by the Government hereunder are chargeable to the following allotments, the available balances of which are sufficient to cover the same:

P. R. No. 630756; initiator, H. R. Shanks, MCPBIA; allotment No. 57X3100 763–1800 P151–09 S33–600; amount, $4,800,000 (debit).

The Finance Officer, USAF, Wright-Patterson Air Force Base, Ohio, is designated as the officer to make payments, if any, in accordance with this contract.

Type contract contemplated: Cost.

Buyer: W. K. Sheehan, MCPBIF.

This instrument has been negotiated pursuant to section 2 (c) (10) of Public Law 413, 80th Congress.

Any required DO ratings will be assigned by the office having overall administrative responsibility for this contract.

Funds are considered as having been committed rather than obligated by the issuance of this contractual instrument (Public Law 663, 83d Cong.). Such funds will be obligated by DD Form 702 "Order for Purchase of Supplies or Services." The Administrative Contracting Officer will issue such forms (i)

to approve work under the contract requiring his authorization and obligate funds therefor, and (ii) to obligate funds for work under the contract not requiring his authorization. Such forms shall be serially numbered, shall include the facilities contract number, identification of the item(s) for which funds are obligated, and the amount (i. e., estimated cost of work) and allotment number(s) of funds obligated and shall be distributed pursuant to applicable regulations. (See AFPC 16, May 1, 1956.)

HEADQUARTERS AIR MATERIEL COMMAND,
Wright-Patterson Air Force Base, Ohio, July 19, 1956.

Letter contract No. AF 33(600)-33631
MCPBIF/WKS/hjc

UTICA-BEND CORP.,
Utica, Mich.

DEAR SIRS:

1. INTRODUCTORY PARAGRAPH

It is expected that the Government will enter into a contract with the Contractor whereunder Contractor will be furnished certain Government-owned facilities and will be authorized to perform certain work necessary to move and install facilities for use in the production of J-57 engine components, in accordance with scheduled Air Force requirements, and in connection therewith Contractor will be authorized to perform items of work as set forth in exhibit A, attached.

It is expected that the total costs under such contract will be approximately $12,000,000 in cost.

2. DIRECTED TO PROCEED

In anticipation of such contract the Contractor is hereby authorized and directed except as otherwise expressly provided herein to the contrary (i) to accept such Government-owned machinery and equipment, and (ii) to perform the items of work specified in exhibit A attached, subject to any prior written approvals required thereby. Normally, no item shall be authorized for manufacture or acquisition hereunder until it has been determined that a suitable like item cannot be furnished by the Government (Department of the Air Force) out of its Industrial Reserve; however, such requirement can be waived solely at the discretion of the Contracting Officer.

3. CONTRACT CLAUSES INCORPORATED BY REFERENCE

The provisions of the contract clauses set forth in the following paragraphs of the Armed Services Procurement Regulation and the Air Force Procurement Instruction in effect on the date hereof, and the additional clauses which are made a part of this letter contract in exhibit A, are hereby incorporated into this letter contract by reference, with the same force and effect as though herein set forth in full.

(*a*) ASPR paragraphs: 7-103.1 (Definition); 7-103.8 (Assignment of Claims); 7-103.12 (Disputes); 7-103.14 (Buy American Act); 7-103.19 (Officials Not to Benefit); (Utilization of Small-Business Concerns); 7-104.16 (Gratuities); 7-105.3 (Notice to the Government of Labor Disputes); 7-203.7 (Records); 9-102.1 (Authorization and Consent); 9-104 (Notice and Assistance Regarding Patent Infringement); 9-110 (Reporting of Royalties); 12-203 (Convict Labor); 12-303.1 (Eight-Hour Law of 1912); 12-604 (Walsh-Healey Public Contracts Act); 12-804 (Nondiscrimination in Employment).

(*b*) AF1 paragraphs: 7-2703.3 (Factual Appendixes); 7-2703.4 (Reports to be Furnished by the Contractor); 7-2703.7 (Taxes and Utilities); 7-2703.8 (Inspection and Access); 7-2703.11 (Subcontracts); 7-2703.14 (Cancellation of Subcontracts); 7-2703.25 (Title); 7-2703.26 (Possession); 7-2703.27 (Liability for Government-Owned Property); 7-2703.28 (Maintenance); 7-2703.29 (Right of Diversion); 7-2703.30 (Responsibility for Damages); 7-2703.31 (Reservation of Rights); 7-2704.1 (Labor Standards in Construction Contracts); 7-2704.6 (Government Bills of Lading); 7-2704.7 (Loading, Blocking and Bracing Requirements).

4. PROVISION FOR DEFINITIZING CONTRACT

By acceptance hereof the Contractor undertakes, without delay, to enter into negotiations with the United States Air Force looking to the execution of a definitive contract which will include the clauses enumerated above and all other applicable clauses then required by Federal Law, Executive Order, and applicable Procurement Regulations. The definitive contract will also contain terms and conditions as agreed to by the parties which may or may not be at variance with the provisions of this letter contract. It is expected that such definitive contract will be executed prior to October 15, 1956.

5. AUTHORITY TO OBLIGATE FUNDS

The contractor is not authorized to expend or to obligate the Government in furtherance of its performance hereunder more than $4,800,000 in the aggregate.

6. USE CHARGE

It is anticipated that the definitive contract contemplated hereby will provide that the Contractor will pay a use charge for any use of the facilities provided hereunder for which legal consideration is not obtained by the Government through the applicable Government prime contracts.

7. DATE FOR USE OF FACILITIES

It is agreed that the Contractor will use its best efforts to have the facilities provided hereunder installed and/or otherwise prepared for use on or before January 1, 1957.

8. TERMINATION

(*a*) In case the definitive contract is not executed by the date specified in the paragraph hereof entitled "Provision for Definitizing Contract" because of the inability of the parties to agree upon a definitive contract, this letter contract may be terminated in its entirety by either party by delivering to the other party a notice in writing specifying the effective date of termination, which date shall not be earlier than 30 days after receipt of such notice. Termination at the option of the Contractor shall not relieve the Contractor of any of its obligations or liabilities under any other Government contract.

(*b*) The Government may at any time terminate this letter contract in whole or in part for its convenience by giving the Contractor a written notice of such termination.

(*c*) The Contractor will promptly terminate work hereunder and any orders placed hereunder for facilities as may be directed or required by any termination hereunder.

(d) Upon termination, the Government will reimburse the Contractor in an amount or amounts to be agreed upon between the parties by negotiation, for the unreimbursed costs incurred or obligated in the performance of this letter contract or that portion hereof so terminated. The total reimbursements to be made under this paragraph (*d*) including any payments previously made hereunder shall not exceed the amount or amounts specified in the clause entitled "Authority to Obligate Funds" hereof. In the event of the failure of the parties to agree as to such amount or amounts, the Contracting Officer shall determine the amount or amounts of such cost under the "Disputes Clause" of this contract.

(*e*) It is agreed that upon any termination (either in whole or in part) becoming effective, the Contractor will dispose of the facilities subject to such termination as the Contracting Officer may direct, and the Contractor will be reimbursed for costs incurred with the approval of the Contracting Officer in connection with such disposal.

9. PROVISION FOR EXECUTION

The Contractor's acceptance of this contract will be indicated by affixing its signature to four copies of this letter and returning three of such executed copies forthwith to Headquarters, Air Materiel Command, Attention: Industrial

Resources Division. Such acceptance will constitute this agreement a contract on the terms set forth herein.

THE UNITED STATES OF AMERICA.
By GEORGE W. NANN,
Contracting Officer.

Accepted July 25, 1956.
(Affix Corporate Seal.)

UTICA-BEND CORP., *Utica, Mich.* (Contractor).
By: GEORGE R. HILL, *Vice President.*

MCP 71-651-(4)
(Rev.) 8 Mar 56.
AF 33(600)-33631

EXHIBIT A

The following paragraph, entitled "Reimbursement" is added to the contract:

10. REIMBURSEMENT

A. The Government will pay to the Contractor upon inspection and acceptance by the Contracting Officer of the items or the work specified in the exhibit A, subject to the provisions of paragraph B of this paragraph the direct costs incurred in the performance of such items of work, hereinafter referred to as "Allowable Cost," determined in accordance with parts 2 and 6, section XV of the Armed Services Procurement Regulation for items other than construction, and in accordance with parts 4 and 6 of said section XV for items of construction, if any.

B. Once each month (or at more frequent intervals, if approved by the Contracting Officer) the Contractor may submit to an authorized representative of the Contracting Officer, in such form and reasonable detail as such representative may require, an invoice or public voucher supported by a statement of cost incurred by the Contractor in the performance of this contract and claimed to constitute Allowable Cost. Each statement of cost shall be certified by an officer or other responsible official of the Contractor authorized by it to certify such statements. As promptly as may be practical after the receipt of each invoice or voucher and statement of cost, the Government shall, except as hereinafter provided, make payment thereon as approved by the Contracting Officer. Such payment may include progress payments made to subcontractors or suppliers for machine tools and construction projects ordered hereunder in those cases where the subcontractor or supplier requires progress payments therefor and the subcontract or purchase agreement therefor contains a progress payments clause approved in writing by the Contracting Officer. Such payment shall be an amount not exceeding 75 percent of the total of Contractor's allowable cost included on each such invoice. At any time or times prior to final payment under this contract the Contracting Officer may cause to be made such audit of the invoices or vouchers and statements of cost as shall be deemed necessary. Each payment theretofore made shall be subject to reduction to the extent of amounts included in the related invoice or voucher and statement of cost which are found by the Contracting Officer on the basis of such audit not to constitute allowable cost and shall also be subject to reduction for overpayments or to increase for underpayments on preceding invoices or vouchers. The Contractor shall repay to the Government, at any time requested, any overpayment theretofore made. In no event shall reimbursement aggregating more than $3,600,000 be made under this paragraph 10 of this letter contract. No reimbursement of overhead expenses shall be made under this letter contract, except in the event of termination thereof.

C. Except as otherwise provided in this contract, the cost of premium wage compensation, including overtime work, will be recognized in any price adjustment under the terms of this contract only to the extent approved in writing by the Contracting Officer.

Part 1. Items of work (see par. 1)

Item 1. With the prior written approval of the Air Force Contracting Officer, accomplish or have accomplished the preparation for shipment and shipment of

Government and privately owned machine tools and production equipment, now located in the Studebaker-Packard plants in Detroit, Mich., required for the production of J–57 engine components to the Chippewa Plant, South Bend, Ind., of Studebaker-Packard Corp. which has been or will be leased to the Contractor.

Item 2. Install or have installed the machinery and production equipment set forth in item 1 above in the Chippewa Plant at South Bend, Ind.

Item 3. With the prior written approval of the Air Force Contracting Officer, remove or have removed from the Chippewa Plant, and transport or have transported to other plants of the Studebaker-Packard Corp. in South Bend, Ind., facilities and inventory now utilized in the commercial truck production line and export packaging operation.

Item 4. Make or have made initial inventory of the Government-furnished machinery and production equipment.

Mr. COURTNEY. The next enclosure was No. 6–A, which is a contract, Air Force, No. 33(600)–33631, issued out of Headquarters, Air Materiel Command, to Utica-Bend Corp., facilities for production of J–57 components, amount $12 million, Contract Officer H. A. Shanks, executed under the provisions of section 2 (c) 10 of Public Law 413, now section 2304 (a) 10.

Reference on the first page indicates the source of the funds.

Mr. Chairman, I think only the first three pages of this contract are relevant for the present study. The remaining portion of the document contains standard Government contracting clauses. However, I would suggest that the whole document be made available.

(The contract is as follows:)

DEPARTMENT OF DEFENSE NEGOTIATED CONTRACT

DEPARTMENT OF THE AIR FORCE CONTRACT NO. AF 33(600)–33631

Project No. 1013–A.
Issuing office FCR: Exempt.
Name: Utica-Bend Corp.
Address: Utica, Mich.

Contract for facilities for the production of J–57 components:

Amount: $12,000,000.

Appropriation and other administrative data:

Office of USAF Administration: Chief, Indianapolis Air Procurement District, 7th Floor, Test Building, 54 Monument Circle, Indianapolis, Ind.

Finance Office: Finance Officer, USAF, Wright-Patterson Air Force Base, Ohio.

P. R. No. 630756; initiator, H. A. Shanks, MCPBIA–3; allotment No. 57X3100 763–1800 P151–09 S33–600; amount, $12,000,000.

Funds are considered as having been committed rather than obligated by the issuance of this contractual instrument. (Public Law 663, 83d Cong.) Such funds will be obligated by DD Form 702, "Order for Purchase of Supplies or Services." The Administrative Contracting Officer will issue such forms (i) to approve work under the contract requiring his authorization and obligate funds therefor, and (ii) to obligate funds for work under the contract not requiring his authorization. Such forms shall be serially numbered, shall include the facilities contract number, identification of the item(s) for which funds are obligated, and the amount (i. e., estimated cost of work) and allotment number(s) of funds obligated and shall be distributed pursuant to applicable regulations. (See AFPC 16, May 1, 1956.)

This negotiated contract is entered into pursuant to the provisions of section 2 (c) (10) of the Armed Services Procurement Act of 1947 (Public Law 413, 80th Cong.), and any required determination and findings have been made.

This contract is entered into as of August 24, 1956, by and between the United States of America, hereinafter called the Government, represented by the Contracting Officer executing this contract, and Utica-Bend Corp. (name of contractor).

(i) a corporation organized and existing under the laws of the State of Delaware.

ADMINISTRATIVE COMMITMENT DOCUMENT

To MCCQ.
Date: August 17, 1956.
Contractual Instrument No. AF 33(600)-33631.
Contractor: Utica-Bend Corp.
FR Item No. n/a; Cont. item No. 1-2 3-4.
Contract quantity n/a.

FR and accounting classification: P. R. 630756 (complete) 57X3100 763-1800 P151-07 S33-600; $4,800,000 of the amount has been obligated on Letter Contract AF 33(600)-33631. Total cost: $7,200,000.

Make payment for items 1, 2, 3, and 4 from: 57X3100 763-1800 P151-07 S33-600. Total cost: $7,200,000.

Make payment for FDT for items 1, 2, 3, and 4 from: 57X3100 763-7400 P151-03 S33-623. Total cost: $7,200.000.

Prepared by:

(Signed) W. K. Sheehan,
W. K. SHEEHAN—MCPBIF—2-1117.

The supplies and services to be obtained by this instrument are authorized by, are for the purpose set forth in, and are chargeable to allotments enumerated above, the available balance of which is sufficient to cover the cost in an amount not to exceed $7,200,000.

(Signed) THELMA L. JOHNSON
(For Robert C. Bordley, Chief, Commitment Obligation Br., Central Procurement.)

Date: August 31, 1956.

PREAMBLE

The Contractor has entered into or is about to enter into Subcontracts or Purchase Orders with Ford Motor Co. for the production of J-57 engine components under a prime contract with the Government. Such contract or Purchase Orders for the same components had previously been entered into between the Studebaker-Packard Corp. and Ford Motor Co. Facilities had been provided by the Government to Studebaker-Packard Corp., under Facilities Contract AF 33(038)-20796 for the production of said J-57 engine components. It is now desired to provide these facilities to the Contractor. The Government subject to the availability of funds will furnish the Contratcor such additional machinery and equipment as are determined by the Air Force to be required for the production of said J-57 components.

The parties hereto have previously entered into Letter Contract No. AF 33(600)-33631. It is now desired to supersede such letter contract to place additional funds on the contract.

LIST OF CONTRACTUAL CONTENTS

This contract consists of the following:

Cover page.
List of contractual contents.
Preamble consisting of 1 page.
General provisions as follows:
Clause 1. Definitions ---- 1
Clause 2. Facilities to be provided ---- 1
Clause 3. Factual appendixes ---- 2
Clause 4. Reports to be furnished by the contractor ---- 2
Clause 5. Use and charges therefor ---- 4 and 5
Clause 6. Reimbursement ---- 5
Clause 7. Taxes and utilities ---- 5
Clause 8. Inspection and access ---- 6
Clause 9. Assignment of claims ---- 6
Clause 10. Records ---- 6 and 7
Clause 11. Subcontracts ---- 8
Clause 12. Utilization of small business concerns ---- 8
Clause 13. Termination ---- 8 and 9
Clause 14. Cancellation of subcontracts ---- 10
Clause 15. Continuing plant clearence ---- 10
Clause 16. Disputes ---- 10
Clause 17. Notice and assistance regarding patent infringement ---- 11
Clause 18. Buy American act ---- 11
Clause 19. Convict labor ---- 11
Clause 20. Eight-hour law of 1912 ---- 12
Clause 21. Walsh-Healey Public Contracts Act ---- 12
Clause 22. Nondiscrimination in employment ---- 12
Clause 23. Officials not to benefit ---- 12
Clause 24. Covenant against contingent fees ---- 13
Clause 25. Title ---- 13
Clause 26. Possession ---- 13
Clause 27. Liability for Government property ---- 13, 14, and 15
Clause 28. Maintenance ---- 15
Clause 29. Right of diversion ---- 15
Clause 30. Responsibility for damages ---- 15 and 16
Clause 31. Reservation of rights ---- 16
Clause 32. Labor standards in construction contracts ---- 16, 17, and 18
Clause 33. Reserved ---- 18
Clause 34. Reporting of royalties ---- 19 and 20
Clause 35. Renegotiation ---- 20
Clause 36. Gratuities ---- 20
Clause 37. Government bills of lading ---- 21
Clause 38. Loading, blocking and bracing requirements ---- 21
Clause 39. Notice to the Government of labor disputes ---- 21
Clause 40. Authorization and consent ---- 21
Clause 41. Approval ---- 21
Clause 42. Alterations in contract ---- 21
Clause 43. Negotiated overhead rates ---- 23

(The balance of this document is in the subcommittee's files.)

SCHEDULE

Part 1. Items of work

Item 1. With the prior written approval of the Air Force Contracting Officer, accomplished the preparation for shipment and shipment of Government and privately owned machine tools and production equipment, now located in the Studebaker-Packard plants in Detroit, Mich., required for the production of J-57 engine components to the Chippewa Plant, South Bend, Ind., of Studebaker-Packard Corp. which has been or will be leased to the Contractor.

Item 2. Install or have installed the machinery and production equipment set forth in item 1 above in the Chippewa Plant at South Bend, Ind.

Item 3. With the prior written approval of the Air Force Contracting Officer, remove or have removed from the Chippewa Plant, and transport or have trans-

ported to other plants of the Studebaker-Packard Corp. in South Bend, Ind., facilities and inventory now utilized in the commercial truck production line and export packaging operation.

Item 4. Make or have made initial inventory of the Government-furnished machinery and production equipment.

Part 2. Government-furnished property (see clause 2, par. B)

Item 1. Such Government-owned machinery and equipment (elsewhere herein referred to as "facilities") previously provided to Studebaker-Packard Corp., for the production of J–57 engine components as has been or may be furnished to the Contractor by the Government for the production of J–57 components at the location designated in part 3 hereof.

Part 3. Location of facilities

Contractor's plant at South Bend, Ind., and such temporary locations including but not limited to subcontractor plants as may be authorized by the Contracting Officer.

Part 4. Target date for the completion of work

Contractor agrees to use its best efforts to have the facilities provided hereunder installed or otherwise prepared for use on or before January 1, 1957.

Part 5. Reimbursable costs

A. Direct costs:

(1) The cost to the contractor of material including complete items of facilities directly used in the performance of the items of work set forth in part 1 hereof.

(2) The cost to the contractor of direct labor (exclusive of overtime and other payroll premiums) used in the performance of the items of work set forth in part 1 hereof.

(3) The cost to the contractor (including the cost of cancellation pursuant to clause 14A of this contract) of subcontracts placed in the performance of the items of work set forth in part 1 hereof (other than subcontracts for services to be performed in the acquisition of facilities).

B. Indirect costs:

The periods to be covered by the negotiated final overhead rates contemplated by the clause hereof entitled "Negotiated Overhead Rates" shall be from August 1, 1956, to July 31, 1957, inclusive and each succeeding 12 months period thereafter. Pending the establishment of such final rates contractor shall be reimbursed for indirect costs at a provisional rate of 80 percent of the cost of direct labor reimbursable hereunder.

Part 6. Funds on the contract, $12,000,000

Part 7. Superseded agreement

Letter Contract No. AF 33(600)-33631 dated July 19, 1956, and all amendmendts thereto are hereby superseded. It is agreed that the terms and conditions of this definitive contract will be retroactive to July 19, 1956.

* * * and obligations of the parties to this contract shall be subject to and governed by the Schedule of General Provisions. To the extent of any inconsistency between the Schedule or the General Provisions of any specifications or other provisions which are made a part of this contract by reference or otherwise, the Schedule and the General Provisions shall control. To the extent of any inconsistency between the Schedule and the General Provisions, the Schedule shall control.

The Contractor represents that the aggregate number of employees of the Contractor and its affiliates is (x) 500 or more ( ) less than 500.

In witness whereof, the parties hereto have executed this contract as of the day and year first above written.

THE UNITED STATES OF AMERICA,
By GEORGE W. NANN,
Contracting Officer.

By GEORGE R. HILL,
Vice President, Utica, Michigan.

NOTE.—Contractor, if a corporation, should cause the following certificate to be executed under its corporate seal, provided that the same officer shall not execute both the contract and the certificate.

CERTIFICATE

I, M. R. Jordan, Jr., certify that I am the Secretary of the corporation named as Contractor herein; that George R. Hill, who signed this contract on behalf of the Contractor, was then Vice President of said corporation; that said contract was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

(Corporate seal) M. R. JORDAN, JR.

Mr. COURTNEY. The next enclosure, Mr. Chairman, is a memorandum by Dudley C. Sharp, July 17, 1956, for the Secretary of Defense.

(The memorandum referred to follows:)

JULY 17, 1956.

Memorandum for the Secretary of Defense.

Subject: Authorization of facility costs for relocation of Studebaker-Packard J–57 subcontract work.

1. Reference is made to recent discussions concerning several Curtis-Wright Corp. proposals and, in particular, the proposal for consolidating in the Utica-Bend Corp. the Department of Defense production contracts currently held by the Studebaker-Packard Corp.

2. In furtherance of this proposal, it is intended to relocate the J–57 subcontract work from the Studebaker-Packard (Detroit) facility, known as the "Grand Boulevard Plant," to the South Bend facility (previously known as Plancor 40).

3. It is estimated that Air Force costs attendant to this action, such as the relocation of production equipment and plant rearrangement, will approximate $12 million.

4. In accordance with the provisions of Department of Defense Directive 4275.2, your approval is required prior to authorization of a facility contract for this work.

5. The funds required for this facility program are in excess of funds presently programmed and appropriated for fiscal year 1957, and the implementation of this expansion will be contingent upon the availability of additional funds.

DUDLEY C. SHARP.

Mr. COURTNEY. The enclosure 6–C is a memorandum for the Secretary of the Air Force, signed by the Secretary of Defense, dated July 20, 1956, directing funding from the Assistant Secretary of Defense, Comptroller.

(The memorandum referred to follows:)

THE SECRETARY OF DEFENSE,
Washington, July 20, 1956.

Memorandum for the Secretary of the Air Force.

Subject: Authorization of facility costs for relocation of Studebaker-Packard J–57 subcontract work.

Reference is made to memorandum for the Secretary of Defense, subject as above, dated July 17, 1956, signed by the Assistant Secretary of the Air Force (Materiel).

The facilities expansion proposed in the referenced memorandum is hereby approved. Arrangements with respect to the necessary funding should be taken up with the Assistant Secretary of Defense (Comptroller).

C. E. WILSON.

Mr. COURTNEY. The next enclosure is No. 7. It is entitled, "Letter Contract, negotiated, section 2 (c) (16), which is now 2304 (a) (16) for overhaul J–47 engines, from Department of Air Force to Utica-Bend Corp.; contracting officer, H. G. Latham."

Again, Mr. Chairman, only the introductory pages, I think, are material to be included in the record itself.

The remaining clauses appear to be standard government clauses.

(The document referred to follows:)

LETTER CONTRACT BETWEEN DEPARTMENT OF THE AIR FORCE AND UTICA-BEND CORP.

Contract No. AF33(600)33601.
Class: 02-A (J-47).
Contract for: Overhaul of 500 each J-47-GE-25/25A-type aircraft engines.
Place: Headquarters, Air Materiel Command, Wright-Patterson Air Force Base, Ohio.
Administrative information: Finance Office, USAF, 5555 South Archer Avenue, Chicago 38, Ill., is designated as the officer to make payments, if any, in accordance with this contract.
The sums to be expended by the Government hereunder are chargeable to the following allotments, the available balances of which are sufficient to cover the same:

PR: OC-720520 (complete):	
5773400 063-1804 P431(2)-07 S34-601	$3,596,500
5773400 063-1804 P431(9)-07 S34-601	96,000
Total	3,692,500

The office having overall administrative responsibility for this contract is: Detroit Air Procurement District (MCAMA), W. Warren Avenue and Lonyo Boulevard, Detroit 32, Mich.
Contractor's invoices or vendor's shipping documents used as invoices shall be made out to the Finance Officer designated to make payment hereunder, if any, and shall be sent by the Contractor to the Administrative Office for recording and forwarding to the Finance Officer for payment.
Point of inspection and acceptance and f. o. b. point: Contractor's plant at Utica, Mich.
Type contract contemplated: FPR(MR).
Purchase Request No.: OC-720520.
Initiator: James H. Harmon (OCMCE).
Buyer: H. G. Latham (MCPMEE).
FCR Serial No.: "Waived."
This instrument has been negotiated pursuant to section 2 (c) (16) of Public Law 413, 80th Congress.

DEPARTMENT OF THE AIR FORCE,
AIR MATERIEL COMMAND,
July 18, 1956.

Letter contract.
Contract No. AF33(600)33601.
Name: Utica-Bend Corp.
Address: Utica, Mich.

DEAR SIRS:

1. INTRODUCTORY PARAGRAPH

An order is hereby placed with the Contractor for the furnishing to this Government of the supplies or services set forth in exhibit A attached hereto and hereby made a part thereof.

2. DIRECTION TO PROCEED

Except as otherwise expressly provided to the contrary herein, the Contractor is directed, upon its acceptance of this order, to proceed immediately to procure the necessary materials, and to commence the manufacture of the supplies or performance of the services called for herein, and to pursue such work with all diligence to the end that the supplies may be delivered or services performed at the earliest practicable date.

3. CONTRACT CLAUSES INCORPORATED BY REFERENCE

(a) The provisions of the contract clauses set forth in the following paragraphs of the Armed Services Procurement Regulation in effect on the date hereof, and the additional clauses which are made a part of this letter contract

in exhibit A, are hereby incorporated into the letter contract by reference with the same force and effect as through herein set forth in full:

7-103.1 (Definitions)
7-103.2 (Charges)
7-103.3 (Extras)
7-103.4 (Variation in Quantity)
7-103.5 (Inspection)
7-103.6 (Responsibility for Supplies)
7-103.8 (Assignment of Claims)
7-103.9 (Additional Bond Security)
7-103.12 (Disputes)
7-103.14 (Buy American Act)
7-103.19 (Officials Not to Benefit)
7-103.20 (Covenant against Contingent Fees)
7-104.12 (Military Security Requirements)
7-104.14 (Utilization of Small Business Concerns)
7-104.15 (Examination of Records)
7-104.16 (Gratuities)
7-104.13 (Priorities, Allocations and Allotments)
9-102.1 (Authorization and Consent (Supply))
9-104 (Notice and Assistance)
9-110 (Reporting of Royalties)
11-401 (Federal, State, and Local Taxes)
12-202 (Convict Labor)
12-303.1 (Eight-hour Law of 1912)
12-604 (Walsh-Healey Public Contracts Act)
12-804 (Non-Discrimination in Employment)
13-502 (Government-Furnished Property)

(The balance of this document is in the subcommittee's files.)

EXHIBIT A TO LETTER CONTRACT AF33 (600)-33601

1. The Contractor shall furnish to the Government the services and supplies necessary to accomplish the following:

Item 1. The Overhaul of five hundred (500) J-47-GE-25/25A type aircraft engines in accordance with the provisions of Appendix A, Oklahoma City Air Materiel Area publication entitled "Work Specification for Overhaul of J-47-GE-25/25A," dated June 11, 1956, and Appendix B, Oklahoma City Air Materiel Area publication entitled "Supply Information," dated March 1, 1956, both incorporated herein by reference and hereby made a part hereof.

2. (a) The work called for under item 1 above will be accomplished in such a manner as to provide an overhaul capability of one hundred (100) engines per month by July 1957.

(b) It is the intent of the Government to continue contract placement for production of J-47 engine overhaul with the Utica-Bend Corp. at the rate of one hundred (100) per month for fiscal year 1958 and fiscal year 1959 provided contractor's performance in fiscal year 1957 (for fiscal year 1958 follow-on), and fiscal year 1957 and fiscal year 1958 (for fiscal year 1959 follow-on) is satisfactory to the United States Air Force and further contingent on the availability of funds to the United States Air Force.

3. The Contractor shall accomplish any "plant rearrangement" necessary for the performance of item 1, subject to the prior approval of the Administrative Contracting Officer. It is understood and agreed that the Contractor shall be reimbursed by the Government the actual cost (no profit) of such plant rearrangement except to the extent that any such costs are reimbursable under any other contract between the Contractor and the Government.

4. The Government shall furnish to the Contractor as Government-furnished Property all of the engines to be overhauled under item 1 in sufficient time to enable the Contractor to meet the delivery schedule that will be set forth in the definitive Contract. In no event will engines be input later than June 30, 1957.

5. Paragraph 8 of the letter contract is hereby deleted and the following substituted in lieu thereof:

Mr. COURTNEY. The next enclosure, Mr. Chairman, is No. 8, contract—I make it to be AF 33(600)-33637. Project 178-L; for further identification: From Department of the Air Force to Wright

Aeronautical Division, Curtiss-Wright Corp.; amount to be debited $20 million; buyer, W. K. Sheehan; executed under section 2 (c) (10) of Public Law 413. Now, 2304 (a) of title X, United States Code.

(The document referred to follows:)

LETTER CONTRACT BETWEEN DEPARTMENT OF THE AIR FORCE AND CURTISS-WRIGHT CORP., WRIGHT AERONAUTICAL DIVISION, QUEHANNA, PA. (CONTRACTOR)

Contract No. AF 33(600)-33637
Amount: $20,000,000 (debit).
FCR: Exempted.
Property class: None.
Project No. 178-L.

(Make distribution to Wood-Ridge, N. J.)

Contract for: Facilities in support of ram jet engine testing at altitude.
Place: Wright-Patterson Air Force Base, Ohio.

ADMINISTRATIVE INFORMATION

Office of USAF Administration: Chief, Philadelphia Air Procurement District, 1411 Walnut Street, Philadelphia, Pa.

The sums to be expended by the Government hereunder are chargeable to the following allotments, the available balances of which are sufficient to cover the same:

P. R. No. 630752; initiator, H. R. Shanks; Allotment No. 57X3100 763-1800; amount, $20,000,000 (debit).

MCPBIA.
P151-09 S33-600.

The Finance Officer, USAF, Wright-Patterson Air Force Base, Ohio, is designated as the officer to make payments, if any, in accordance with this contract.

Type contract contemplated: Cost.

Buyer: W. K. Sheehan, MCPBIF.

This instrument has been negotiated pursuant to section 2 (c) (10) of Public Law 413, 80th Congress.

Any required DO ratings will be assigned by the office having overall administrative responsibility for this contract.

Funds are considered as having been committed rather than obligated by the issuance of this contractual instrument, (Public Law 663, 83d Cong.) Such funds will be obligated by DD Form 702 "Order for Purchase of Supplies or Services." The Administrative Contracting Officer will issue such forms (i) to approve work under the contract requiring his authorization and obligate funds therefor, and (ii) to obligate funds for work under the contract not requiring his authorization. Such forms shall be serially numbered, shall include the facilities contract number, identification of the item(s) for which funds are obligated, and the amount (i. e., estimated cost of work) and allotment number(s) of funds obligated and shall be distributed pursuant to applicable regulations. (See AFPC 16, May 1, 1956.)

HEADQUARTERS AIR MATERIEL COMMAND,
Wright-Patterson Air Force Base, Ohio, July 25, 1956.

Letter Contract
Nr. AF 33(600)-33637

MCPBIF/WKS/hjc/mel.

CURTISS-WRIGHT CORP.,
Wood-Ridge, N. J.

DEAR SIR:

1. INTRODUCTORY PARAGRAPH

It is expected that the Government will enter into a contract with the Contractor whereunder Contractor will be furnished certain Government-owned facilities and will be authorized to perform certain work necessary to establish facilities for the altitude testing of ram jet engines to be located on Government-owned or controlled land at Quehanna, Pa., in accordance with scheduled Air

Force requirements, and in connection therewith Contractor will be authorized to perform items of work as set forth in exhibit A, attached.

It is expected that the total expansion of facilities to be effected under such contract will approximate $39,570,000 in cost.

It is further expected that the Contractor will accomplish such action as is to be agreed upon between the Government and the Contractor and is necessary for the proposed test facility to be maintained and operated as a complete, separate and independent entity in the event occasion should arise for independent operation, and also that the definitive contract will provide for the Government to schedule such work as it deems necessary in the facility.

2. DIRECTION TO PROCEED

In anticipation of such contract the Contractor is hereby authorized and directed subject to the prior written approval of the Air Force Contracting Officer and except as otherwise expressly provided herein to the contrary (i) to accept such Government-owned machinery and equipment, and (ii) to perform the A and E work and placement of orders for long lead time items necessary to perform the items of work specified in exhibit A, attached. Normally, no item shall be authorized for manufacture or acquisition hereunder until it has been determined that a suitable like item cannot be furnished by the Government out of its industrial reserve; however, such requirement can be waived solely at the discretion of the Contracting Officer.

3. CONTRACT CLAUSES INCORPORATED BY REFERENCE

The provisions of the contract clauses set forth in the following paragraphs of the Armed Services Procurement Regulation and the Air Force Procurement Instruction in effect on the date hereof, and the additional clauses which are made a part of this letter contract in exhibit A, are hereby incorporated into this letter contract by reference, with the same force and effect as though herein set forth in full.

(a) ASPR paragraphs: 7–103.1 (Definitions); 7–103.8 (Assignment of Claims); 7–103.12 (Disputes); 7–103.14 (Buy American Act); 7–103.19 (Officials not to Benefit); 7–103.20 (Covenant Against Contingent Fees); 7–104.10 (Renegotiation); 7–104.14 (Utilization of Small-Business Concerns); 7–104.16 (Gratuities); 7–105.3 (Notice to the Government of Labor Disputes); 7–203.7 (Records); 9–102.1 (Authorization and Consent); 9–104 (Notice and Assistance Regarding Patent Infringement); 9–110 (Reporting of Royalties); 12–203 (Convict Labor); 12–303.1 (Eight-Hour Law of 1912); 12–604 (Walsh-Healey Public Contracts Act); 12–804 (Nondiscrimination in Employment).

(b) AFPI paragraphs: 7–2703.3 (Factual Appendices); 7–2703.4 (Reports to be Furnished by the Contractor); 7–2703.7 (Taxes and Utilities); 7–2703.8 (Inspection and Access); 7–2703.11 (Subcontracts); 7–2703.14 (Cancellation of Subcontracts); 7–2703.25 (Title); 7–2703.26 (Possession); 7–2703.27 (Liability for Government-Owned Property); 7–2703.28 (Maintenance); 7–2703.29 (Right of Diversion); 7–2703.30 (Responsibility for Damages); 7–2703.31 (Reservation of Rights); 7–2704.1 (Labor Standards in Construction Contracts); 7–2704.6 (Government Bills of Lading); 7–2704.7 (Loading, Blocking and Bracing Requirements).

4. PROVISION FOR DEFINITIZING CONTRACT

By acceptance hereof the Contractor undertakes, without delay, to enter into negotiations with the United States Air Force looking to the execution of a definitive contract which will include the clauses enumerated above and all other applicable clauses then required by Federal Law, Executive order, and applicable procurement regulations. The definitive contract will also contain terms and conditions as agreed to by the parties which may or may not be at variance with the provisions of this letter contract. It is expected that such definitive contract will be executed prior to October 15, 1956.

5. AUTHORITY TO OBLIGATE FUNDS

The Contractor is not authorized to expend or to obligate the Government in furtherance of its performance hereunder more than $20,000,000 in the aggregate.

6. USE CHARGE

It is anticipated that the definitive contract contemplated hereby will provide that the Contractor will pay a use charge for any use of the facilities provided hereunder for which legal consideration is not obtained by the Government through the applicable Government prime contracts.

7. DATE FOR USE OF FACILITIES

It is agreed that the Contractor will use its best efforts to have the facilities provided hereunder installed and/or otherwise prepared for use on or before February 1, 1959.

8. TERMINATION

(a) In case the definitive contract is not executed by the date specified in the paragraph hereof entitled "Provision for Definitizing Contract" because of the inability of the parties to agree upon a definitive contract, this letter contract may be terminated in its entirety by either party by delivering to the other party a notice in writing specifying the effective date of termination, which date shall not be earlier than 30 days after receipt of such notice. Termination at the option of the Contractor shall not relieve the Contractor of any of its obligations or liabilities under any other Government contract.

(b) The Government may at any time terminate this letter contract in whole or in part for its convenience by giving the Contractor a written notice of such termination.

(c) The Contractor will promptly terminate work hereunder and any orders placed hereunder for facilities as may be directed or required by any termination hereunder.

(d) Upon termination, the Government will reimburse the Contractor in an amount or amounts to be agreed upon between the parties by negotiation, for the unreimbursed costs incurred or obligated in the performance of this letter contract or that portion hereof so terminated. The total reimbursements to be made under this paragraph (d) including any payments previously made hereunder shall not exceed the amount or amounts specified in the clause entitled "Authority to Obligate Funds" hereof. In the event of the failure of the parties to agree as to such amount or amounts, the Contracting Officer shall determine the amount or amounts of such cost under the "Disputes Clause" of this contract.

(e) It is agreed that upon any termination (either in whole or in part) becoming effective, the Contractor will dispose of the facilities subject to such termination as the Contracting Officer may direct, and the Contractor will be reimbursed for costs incurred with the approval of the Contracting Officer in connection with such disposal.

PROVISION FOR EXECUTION

The Contractor's acceptance of this contract will be indicated by affixing its signature to four copies of this letter and returning three of such executed copies forthwith to Headquarters, Air Materiel Command, Attention: Industrial Resources Division. Such acceptance will constitute this agreement a contract on the terms set forth herein.

THE UNITED STATES OF AMERICA,
By GEORGE W. NANN, *Contracting Officer.*

Accepted JUL 25, 1956.
(Affix Corporate Seal.)

CURTISS-WRIGHT CORP. *Contractor.*
WRIGHT AERONAUTICAL DIVISION
By GEORGE R. HILL, *Vice President.*

MCP 71-651-(4)
(Rev 8 Mar 56)
AF 33(600)-33637

EXHIBIT "A"

Part 1. Items of work (see par. 1)

Item 1. With the prior written approval of the Air Force Contracting Officer, accomplish, or have accomplished, the necessary engineering studies and design and prepare the drawings and specifications for ram jet engine test facilities having a capability of testing 48 inch ram jet engines through 90,000 foot altitude and Mach 4 speed, such design configuration to permit addition of facilities or additonal capability for testing with high energy fuels or atomic fuel or testing of turbo-fan engines, and on the basis thereof, prepare and submit a final design and report. The general scope of such test facilities is set forth in Contractor's appendix A covering altitude ram jet facility test equipment, dated March 23, 1956, as submited by the Contractor to Headquarters, AMC, however, prior to initiation of preliminary design, the Contractor will receive ACO concurrence in the general features of the proposed facility.

Item 2. With the prior wiriten approval of the Air Force Contracting Officer, design, manufacture, construct and/or install test faciilties including buildings, building installations (mechanical and nomechanical) and items of laboratory and test equpment required for the altitude testing of ram jet engines as described in item 1 above, and as listed in Contractor's appendix A covering altitude ram jet facility testing equipment dated March 23, 1956, and items approved by the Air Force Contracting Officer as reasonable and equivalent substitutions for the items so listed; provided however, that the nonseverable facilities authorized hereunder shall be constructed or installed on Government-owned or controlled land only.

10. REIMBURSEMENT

A. The Government will pay to the Contractor upon inspection and acceptance by Contracting Officer of the items or the work specified in the exhibit A, subject to the provisions of paragraph B of this paragraph the direct costs incurred in the performance of such items of work, hereinafter referred to as "Allowable Cost," determined in accordance with parts 2 and 6, section XV of the Armed Services Procurement Regulation for items other than construction, and in accordance with parts 4 and 6 of said section XV for items of construction, if any.

B. Once each month (or at more frequent intervals, if approved by the Contracting Officer) the Contractor may submit to an authorized representative of the Contracting Officer, in such form and reasonable detail as such representative may require, an invoice or public voucher supported by a statement of cost incurred by the Contractor in the performance of this contract and claimed to constitute allowable cost. Each statement of cost shall be certified by an officer or other responsible official of the Contractor authorized by it to certify such statements. As promptly as may be practical after the receipt of each invoice or voucher and statement of cost, the Government shall, except as hereinafter provided, make payment thereon as approved by the Contracting Officer. Such payment may include progress payments made to subcontractors or suppliers for machine tools and construction projects ordered hereunder in those cases where the subcontractor or supplier requires progress payments therefor and the subcontract or purchase agreement therefor contains a progress payments clause approved in writing by the Contracting Officer. Such payment shall be an amount not exceeding 75 percent of the total of Contractor's allowable cost included on each such invoice. At any time or times prior to final payment under this contract the Contracting Officer may cause to be made such audit of the invoices or vouchers and statements of cost as shall be deemed necessary. Each payment theretofore made shall be subject to reduction to the extent of amounts included in the related invoice or voucher and statement of cost which are found by the Contracting Officer on the basis of such audit not to constitute allowable cost and shall also be subject to reduction for overpayments or to increase for underpayments on preceding invoices or vouchers. The Contractor shall repay to the Government, at any time requested, any overpayment theretofore made. In no event shall reimbursement aggregating more than $15,000,000 be made under this paragraph No. 10 of this letter contract. No reimbursement of overhead expenses shall be made under this letter contract, except in the event of termination hereof.

C. Except as otherwise provided in this contract, the cost of premium wage compensation, including overtime work, will be recognized in any price adjustment under the terms of this contract only to the extent approved in writing by the Contracting Officer.

Mr. COURTNEY. 8–B is a memorandum from the Secretary of Defense to the Secretary of the Air Force relating to the funding. Mr. Chairman, there appears to be an indistinct mark of "Confidential" here, but in view of the letter enclosure, all classification has been removed.

(The document above-referred to is as follows:)

Memorandum for the Secretary of the Air Force.
Subject: Authorization of Quehanna, Pa., Ramjet Engine Test Facility.

Reference is made to memorandum for the Secretary of Defense, subject as above, dated July 17, 1956, signed by the Assistant Secretary of the Air Force (Materiel).

The facilities expansion proposed in the referenced memorandum is hereby approved. Arrangements with respect to the necessary funding should be taken up with the Assistant Secretary of Defense (Comptroller).

C. E. WILSON.

Mr. COURTNEY. Nine, a letter, signed by Harley S. Jones, Brigadier General, United States Air Force, from the Director of Procurement in relation to an Army tank contract and other contracts, one of $63,300,000, and the other of $2,200,000, with further explanations by Brigadier General Jones.

(The document referred to follows:)

HEADQUARTERS AIR MATERIEL COMMAND,
Wright-Patterson Air Force Base, Ohio, July 20, 1956.

WRIGHT AERONAUTICAL DIVISION
Curtiss-Wright Corp., Wood-Ridge, N. J.

GENTLEMEN: This letter signifies the intention of the Department of the Air Force to enter into contracts, over the next 3 years, with the Wright Aeronautical division, Curtiss-Wright Corp. for the development of the WTF–10-type engine with performance characteristics substantially in accordance with WAD Specification AC 228. It is estimated that these contracts will approximate a cumulative total of $63.3 million. However, the continuation and rate of contracting for this program will be contingent upon progress satisfactory to the Air Force and upon the availability of appropriated funds.

The initial phase of this program will be provided for in a letter contract to be issued by July 25, 1956, or as soon thereafter as possible in the amount of $2,200,000 calling for work in calendar year 1956. Contractual implementation providing for calendar year 1957 effort will be definitized as soon as practicable thereafter subject to the aforementioned condition and to negotiation and mutual agreement as to costs and other terms and conditions of the intended contract.

For your further information, the Bureau of Aeronautics, Department of the Navy, has expressed an interest in and agreed to participate with the Air Force in this joint development program. You are therefore requested to cooperate fully with the Bureau of Aeronautics in regard to this program.

Yours very truly,

HARLEY S. JONES,
Brigadier General, USAF,
Deputy Director of Procurement and Production.

Mr. COURTNEY. Mr. Chairman, that concludes, with the addition of 7–A, which I think I have omitted, and which appear to me at least to be repetitions of previous documents, but nonetheless, they are enclosures; three documents: one signed by Mr. Sharp, the other by Mr. Wilson, and the third by Mr. Wilson, bearing dates July 17, July 20 and July 24, relating—Sharp is the last one—relating to the funding of contracts referred to.

(The documents referred to follow:)

JULY 17, 1956.

Memorandum for the Secretary of Defense.
Subject: Facilities required for Curtiss-Wright Corp. (Utica-Bend) overhaul of J–47 engines.

1. Reference is made to the recent discussions concerning proposals made by the Curtiss-Wright Corp. and, in particular, the proposal for overhaul of J–47 engines by the Utica-Bend Corp.

2. In accordance with decision reached, the Air Force intends to contract with the Utica-Bend Corp. for overhaul of five hundred (500) J–47 engines and to establish overhaul capacity to the rate of one hundred (100) per month by July 1957.

3. Although definite facility costs are not now available, they may exceed $1 million.

4. In view of imminent Air Force commitment on this contract and in accordance with the provisions of Department of Defense Directive 4275.2, your approval in principle of this facility expansion is requested.

5. The funds required for this facility program are in excess of funds presently programed and appropriated for fiscal year 1957, and the implementation of this expansion will be contingent upon the availability of additional funds.

DUDLEY C. SHARP.

THE SECRETARY OF DEFENSE,
Washington, July 20, 1956.

Memorandum for the Secretary of the Air Force
Subject: Facilities required for Curtiss-Wright Corp. (Utica-Bend) overhaul of J–47 engines.

Reference is made to memorandum for the Secretary of Defense, subject as above, dated July 17, 1956, signed by the Assistant Secretary of the Air Force (Materiel).

The facilities expansion program proposed in the referenced memorandum is hereby approved. Arrangements with respect to the necessary funding should be taken up with the Assistant Secretary of Defense (Comptroller).

C. E. WILSON.

JULY 24, 1956.

DEPARTMENT OF THE AIR FORCE INDIVIDUAL DETERMINATIONS AND FINDINGS—AUTHORITY TO NEGOTIATE CONTRACT

The Department of the Air Force proposes to enter into a contract with Utica-Bend Corp. for the maintenance overhaul of J–47–CE–25/25A type aircraft engines.

I hereby find that this procurement is for maintenance overhaul of five hundred (500) each J–47–CE–25/25A aircraft engines.

I hereby determine that it is in the interest of national defense that the facilities of the Utica-Bend Corp. be kept available for furnishing supplies and services in the event of a national emergency.

Upon the basis of the findings and determination above, I hereby authorize negotiation of a contract for this procurement pursuant to section 2 (e) (16) of the Armed Services Procurement Act of 1947 (Public Law 416, 80th Cong.).

DUDLEY C. SHARP.

D and P 56–16–1.

Mr. COURTNEY. Mr. Chairman, with the exception of a further memorandum, which is an interoffice memorandum, that completes the file submitted by the Department of the Air Force.

Mr. HÉBERT. Do you care to make any comments, Mr. Hurley?

Mr. HURLEY. Mr. Chairman, I would like to know when we could have a copy of those made available to us.

Mr. HÉBERT. As soon as the reporter has them. You will have to obtain them from the reporter.

Mr. FOGO. (Aside to Mr. Hurley.)

Mr. HURLEY. They will be complete in the transcript? When will that be available to us?

Mr. COURTNEY. I understand this afternoon.

With the reservations of standard Government clauses, I would assume, without attempting to speak for our very efficient reporter, by Capital Service sometime this afternoon.

Mr. HÉBERT. Do you care to make any comment at this time?

Mr. HURLEY. No, sir.

Hr. HÉBERT. No comment?

Mr. HURLEY. We want to reserve comment until we see the documents.

Mr. HÉBERT. I want to give you every opportunity.

No comment?

Mr. HURLEY. Yes.

Mr. HÉBERT. Proceed, Mr. Courtney.

Mr. COURTNEY. Mr. Chairman, the supplemental sheet has been furnished by Curtiss-Wright to more fully answer question L of the questionnaire. The information, which I would ask to have made a part of the record, supplements the answers shown on pages 1157–1158 of answers to questionnaire.

(The material referred to follows:)

Curtiss-Wright Corp.—Summary of certain expenses and the allocation of such expenses to military engine sales exhibit E (1) by engine mode for the 5-year period Jan. 1, 1952, through Dec. 31, 1956

Description	Total (1)	R-1300-1A (2)	R-1300-2 (3)	R-1300-3 (4)	R-1820-76 (5)	R-1820-80 (6)	R-1820-82 (7)	R-1820-103 (8)
Total sales		$7,446,552	$199,860	$101,735	$2,217,530	$1,067,642	$393,305	$1,053,080
Units		405	12	5	113	50	14	50
L-11. Contributions or dues:								
Total	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204
Amount applicable to military engine sales	$138,982	$1,334	$36	$18	$398	$192	$68	$183
Percent of military engine sales		0.0179	0.0180	0.0177	0.0179	0.0180	0.0173	0.0174
Percent of total contributions or dues		0.31	0.01		0.09	0.04	0.02	0.04
Dollars per unit		$3.29	$2.98	$3.64	$3.51	$3.84	$4.86	$3.66
L-12. Consultation or advisory fees:								
Total	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017
Amount applicable to military engine sales	$252,293	$1,335	$36	$18	$400	$193	$76	$203
Percent of military engines sales		0.0179	0.0180	0.0177	0.0180	0.0180	0.0193	0.0193
Percent of total consultation or advisory fees		0.12			0.03	0.02	0.01	0.02
Dollars per unit		$3.30	$2.98	$3.64	$3.51	$3.86	$5.42	$4.06
L-13. Depreciation (as claimed for Federal income-tax purposes):								
Total	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102
Amount applicable to military engine sales	$3,563,903	$55,192	$1,481	$754	$16,432	$7,912	$2,666	$7,216
Percent of military engine sales		0.7412	0.7410	0.7411	0.7410	0.7411	0.6778	0.6852
Percent of total depreciation		0.43	0.01	0.01	0.13	0.06	0.02	0.06
Dollars per unit		$136.28	$123.40	$150.75	$145.40	$158.24	$190.43	$144.32
L-16. Traveling:								
Total	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456
Amount applicable to military engine sales	$3,499,393	$42,863	$1,150	$585	$12,760	$6,145	$2,139	$5,768
Percent of military engine sales		0.5756	0.5754	0.5750	0.5754	0.5756	0.5439	0.5477
Percent of total traveling		0.33	0.01		0.10	0.05	0.02	0.04
Dollars per unit		$105.83	$95.85	$117.10	$112.94	$122.90	$152.79	$115.36
L-19. Salary and incentive compensation paid to any retired officer of the U. S. Military Establishment:								
Total	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341
Amount applicable to military engine sales	$177,469	$1,622	$43	$22	$483	$232	$87	$234
Percent of military engine sales		0.0218	0.0215	0.0216	0.0218	0.0217	0.0221	0.0222
Percent of total salary and incentive compensation paid to any retired officer of the U. S. Military Establish-								

ment		0.29	0.01		0.09	0.04	0.02	0.04
Dollars per unit		$4.00	$3.63	$4.44	$4.28	$4.64	$6.23	$4.68
L-21. Salary and incentive compensation of every officer paid $25,000 or more:								
Total	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823
Amount applicable to military engine sales	$904,587	$8,334	$223	$113	$2,481	$1,194	$414	$1,119
Percent of military engine sales		0.1119	0.1116	0.1111	0.1119	0.1118	0.1053	0.1063
Percent of total salary and incentive compensation of every officer paid $25,000 or more		0.26	0.01		0.08	0.04	0.01	0.03
Dollars per unit		$20.58	$18.64	$22.77	$21.96	$23.88	$29.57	$22.38
J-3. Overtime:								
Total	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100
Amount applicable to military engine sales	$5,637,285	$187,642	$5,036	$2,564	$55,882	$26,913	$8,545	$23,298
Percent of military engine sales		2.5199	2.5198	2.5203	2.5200	2.5208	2.1726	2.2124
Percent of total overtime		1.50	0.04	0.02	0.45	0.21	0.07	0.19
Dollars per unit		$463.31	$419.67	$512.80	$494.53	$538.26	$610.36	$465.96
K. License or royalties fees:								
Total	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950
Amount applicable to military engine sales	$189,277	$3,628	$97	$50	$1,080	$520	$177	$478
Percent of military engine sales		0.0487	0.0485	0.0491	0.0487	0.0487	0.0450	0.0454
Percent of total license or royalties fees		0.82	0.02	0.01	0.25	0.12	0.04	0.11
Dollars per unit		$8.96	$8.08	$10.00	$9.56	$10.40	$12.64	$9.56
Air Force contract No		33 (038) 6129	33 (038) 8500	33 (038) 18825	33 (038) 6129 33 (038) 8500	33 (038) 8500	33 (038) 8500	33 (038) 6129

Curtiss-Wright Corp.—Summary of certain expenses and the allocation of such expenses to military engine sales exhibit E (1) by engine model for the 5-year period Jan. 1, 1952, through Dec. 31, 1956—Continued

Description	R-3350-26 (9)	R-3350-30 (10)	R-3350-32 (11)	R-3350-34 (12)	R-3350-85 (13)	R-3350-89 (14)	R-3350-91 (15)	972-TC-18-DA1 (16)
Total sales	$19,285,043	$91,878,369	$53,691,202	$106,849,135	$95,900,521	$1,580,088	$31,219,762	$315,532
Units	451	1,400	831	1,488	1,477	24	463	4
L-11. Contributions or dues:								
Total	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204
Amount applicable to military engine sales	$3,482	$14,863	$8,247	$16,707	$15,559	$254	$5,107	$43
Percent of military engine sales	0.0181	0.0162	0.0154	0.0156	0.0162	0.0161	0.0164	0.0136
Percent of total contributions or dues	0.80	3.40	1.89	3.82	3.56	0.06	1.17	0.01
Dollars per unit	$7.72	$10.62	$9.92	$11.23	$10.53	$10.60	$11.03	$10.73
L-12. Consultation or advisory fees:								
Total	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017
Amount applicable to military engine sales	$4,178	$20,989	$19,381	$34,202	$22,179	$583	$11,447	$121
Percent of military engine sales	0.0217	0.0228	0.0361	0.0320	0.0231	0.0369	0.0367	0.0383
Percent of total consultation or advisory fees	0.36	1.82	1.68	2.97	1.93	0.05	0.99	0.01
Dollars per unit	$9.26	$14.99	$23.32	$22.99	$15.01	$24.29	$24.72	$30.21
L-13. Depreciation (as claimed for Federal income tax purposes):								
Total	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102
Amount applicable to military engine sales	$126,011	$510,904	$202,775	$438,734	$542,614	$5,602	$111,114	$1,197
Percent of military engine sales	0.6534	0.5561	0.3777	0.4106	0.5658	0.3545	0.3559	0.3793
Percent of total depreciation	0.98	4.00	1.59	3.44	4.25	0.04	0.87	0.01
Dollars per unit	$279.40	$364.93	$244.01	$294.85	$367.38	$233.46	$239.99	$299.28
L-16. Traveling:								
Total	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456
Amount applicable to military engine sales	$103,367	$445,404	$219,564	$447,269	$470,773	$5,888	$117,296	$1,339
Percent of military engine sales	0.5360	0.4848	0.4089	0.4186	0.4909	0.3726	0.3757	0.4243
Percent of total traveling	0.81	3.47	1.71	3.49	3.67	0.05	0.91	0.01
Dollars per unit	$229.20	$318.15	$264.22	$300.58	$318.74	$245.37	$253.34	$334.86
L-19. Salary and incentive compensation paid to any retired officer of the U. S. Military Establishment:								
Total	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341
Amount applicable to military engine sales	$3,948	$21,329	$11,882	$23,780	$22,233	$319	$6,201	$80
Percent of military engine sales	0.0205	0.0232	0.0221	0.0223	0.0232	0.0202	0.0199	0.0253
Percent of total salary and incentive compensation paid to any retired officer of the U. S. Military Establishment	0.71	3.83	2.14	4.27	4.00	0.06	1.11	0.01
Dollars per unit	$8.75	$15.24	$14.30	$15.98	$15.05	$13.30	$13.39	$20.04
L-21. Salary and incentive compensation of								

every officer paid $25,000 or more:								
Total	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823
Amount applicable to military engine sales	$23,521	$86,962	$61,307	$115,919	$92,266	$2,095	$41,990	$287
Percent of military engine sales	0.1220	0.0946	0.1142	0.1085	0.0962	0.1326	0.1345	0.0910
Percent of total salary and incentive compensation of every officer paid $25,000 or more	0.72	2.67	1.88	3.55	2.83	0.06	1.29	0.01
Dollars per unit	$52.15	$62.12	$73.77	$77.90	$62.47	$87.30	$90.69	$71.94
J-3. Overtime:								
Total	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100
Amount applicable to military engine sales	$376,914	$1,365,477	$145,580	$564,837	$1,467,350	$2,212	$43,445	$915
Percent of military engine sales	1.9544	1.4862	0.2711	0.5286	0.1530	0.1400	0.1392	0.2900
Percent of total overtime	3.01	10.90	1.16	4.51	11.71	0.02	0.35	0.01
Dollars per unit	$835.73	$975.34	$175.19	$379.59	$993.47	$92.17	$95.91	$228.75
K. License or royalties fees:								
Total	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950
Amount applicable to military engine sales	$7,952	$34,164	$8,787	$23,113	$35,655	$174	$3,597	$53
Percent of military engine sales	0.0412	0.0372	0.0164	0.0216	0.0372	0.0110	0.0115	0.0170
Percent of total license or royalties fees	1.81	7.77	2.00	5.25	8.10	0.04	0.82	0.01
Dollars per unit	$17.63	$24.40	$10.57	$15.53	$24.14	$7.24	$7.77	$13.25
Air Force contract No	33 (038) 8500 33 (600) 28861	33 (038) 8500 33 (038) 18825	33 (038) 18825 33 (600) 26657 33 (600) 28061	33 (038) 8500 33 (038) 18825 33 (600) 22443 33 (600) 26607 33 (600) 26657 33 (600) 28064 33 (600) 30972	33 (038) 18825 33 (600) 22443	33 (600) 22443	33 (600) 26607	33 (600) 22443

Curtiss-Wright Corp.—Summary of certain expenses and the allocation of such expenses to military engine sales exhibit E (1) by engine model for the 5-year period Jan. 1, 1952, through Dec. 31, 1956—Continued

Description	981-TC-18-EA1 (17)	XR-J47-W5 (18)	XR-J47-W9 (19)	YT-49-W1 (20)	YJ-65-W1 (21)	J65-W-2 (22)	J65-W 3 (23)	J65-W 4 (24)
Total sales	$5,120,870	$823,239	$720,060	$7,258,549	$75,019,974	$2,287,541	$29,451,403	$68,950,597
Units	00	23	20	13	711	23	307	986
L-11. Contributions or dues:								
Total	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204
Amount applicable to military engine sales	$952	$153	$133	$1,077	$11,469	$316	$4,006	$10,797
Percent of military engine sales	0.0186	0.0186	0.0185	0.0148	0.0152	0.0138	0.0136	0.0157
Percent of total contributions or dues	0.22	0.03	0.03	0.25	2.62	0.07	0.92	2.47
Dollars per unit	$15.87	$6.65	$6.65	$82.85	$16.13	$13.74	$13.05	$10.95
L-12. Consultation or advisory fees:								
Total	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017
Amount applicable to military engine sales	$1,720	$276	$241	$2,730	$19,912	$847	$11,285	$25,498
Percent of military engine sales	0.0335	0.0335	0.0335	0.0376	0.0265	0.0370	0.0383	0.0370
Percent of total consultation or advisory fees	0.15	0.02	0.02	0.24	1.73	0.07	0.98	2.22
Dollars per unit	$28.67	$12.00	$12.05	$210.00	$28.00	$36.83	$36.74	$25.86
L-13. Depreciation (as claimed for Federal income tax purposes):								
Total	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102
Amount applicable to military engine sales	$18,988	$3,052	$2,669	$26,644	$356,366	$8,882	$111,730	$250,729
Percent of military engine sales	0.3708	0.3707	0.3707	0.3671	0.4750	0.3883	0.3794	0.3636
Percent of total depreciation	0.15	0.02	0.02	0.21	2.79	0.07	0.88	1.97
Dollars per unit	$316.47	$132.70	$133.45	$2,049.54	$501.22	$386.17	$363.97	$254.29
L-16. Traveling:								
Total	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456
Amount applicable to military engine sales	$20,923	$3,363	$2,942	$28,947	$336,080	$9,752	$126,010	$270,194
Percent of military engine sales	0.4086	0.4085	0.4086	0.3988	0.4487	0.4263	0.4245	0.3919
Percent of total traveling	0.16	0.03	0.02	0.23	2.62	0.08	0.97	2.11
Dollars per unit	$348.72	$146.22	$147.10	$2,226.69	$473.53	$424.00	$407.24	$274.03
L-19. Salary and incentive compensation paid to any retired officer of the U. S. Military Establishment:								
Total	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341
Amount applicable to military engine sales	$824	$132	$115	$1,655	$17,980	$578	$7,500	$14,702
Percent of military engine sales	0.0161	0.0160	0.0160	0.0228	0.0240	0.0252	0.0255	0.0213
Percent of total salary and incentive compensation paid to any retired officer of the U. S. Military Estab-								

lishment	0.15	0.02	0.02	0.30	3.23	0.10	1.35	2.64
Dollars per unit	$13.73	$5.74	$5.75	$127.31	$25.29	$25.13	$24.37	$14.91
L–21, Salary and incentive compensation of every officer paid $25,000 or more:								
Total	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823
Amount applicable to military engine sales	$7,968	$1,280	$1,120	$8,109	$66,724	$2,072	$26,859	$84,727
Percent of military engine sales	0.1556	0.1555	0.1555	0.1117	0.0889	0.0906	0.9120	0.1229
Percent of total salary and incentive compensation of every officer paid $25,000 or more	0.24	0.04	0.03	0.25	2.05	0.06	0.82	2.60
Dollars per unit	$132.80	$55.65	$56.00	$623.77	$93.85	$93.09	$87.48	$85.93
J–3, Overtime:								
Total	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100
Amount applicable to military engine sales	$6,657	$1,070	$936	$15,654	$753,074	$8,246	$85,409	$126,205
Percent of military engine sales	0.1300	0.1300	0.1300	0.2157	1.0038	0.3605	2.9000	0.1830
Percent of total overtime	0.05	0.01	0.01	0.12	6.01	0.07	0.68	1.01
Dollars per unit	$110.95	$46.52	$46.80	$1,204.15	$1,059.18	$402.00	$278.21	$128.00
K; License or royalties fees:								
Total	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950
Amount applicable to military engine sales	$881	$142	$124	$1,007	$23,095	$416	$4,918	$2,209
Percent of military engine sales	0.0172	0.0172	0.0172	0.0139	0.0308	0.0182	0.1670	0.0134
Percent of total license or royalties fees	0.20	0.03	0.03	0.23	5.25	0.09	1.12	2.09
Dollars per unit	$14.68	$6.17	$6.20	$77.46	$32.48	$32.09	$16.02	$9.
Air Force contract No	33 (600) 30357	33 (600) 23699	33 (600) 23699	33 (038) 18488	33 (038) 18132	33 (038) 20187	33 (038) 18132 33 (600) 22426	33 (038) 20187 33 (600) 26218 33 (600) 30388

Curtiss-Wright Corp.—Summary of certain expenses and the allocation of such expenses to military engine sales exhibit E (1) by engine model for the 5-year period Jan. 1, 1952, through Dec. 31, 1956—Continued

Description	J65-W5 (25)	J65-W6 (26)	J65-W7 (27)	YJ65-W14 (28)	J65-W16 (29)	J65-W18 (30)	YJ67-W1 (31)
Total sales	$96,237,965	$2,719,530	$56,437,853	$1,737,582	$32,237,246	$13,027,646	$3,472,595
Units	1,126	19	862	12	549	127	13
L-11. Contributions or dues:							
Total	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204	$437,204
Amount applicable to military engine sales	$14,523	$437	$9,439	$279	$5,858	$2,413	$638
Percent of military engine sales	0.0151	0.0161	0.0167	0.0161	0.0182	0.0185	0.0184
Percent of total contributions or dues	3.32	0.10	2.16	0.06	1.34	0.55	0.15
Dollars per unit	$12.90	$23.00	$10.95	$23.25	$10.67	$19.00	$49.08
L-12. Consultation or advisory fees:							
Total	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017	$1,151,017
Amount applicable to military engine sales	$35,859	$1,002	$20,365	$641	$11,013	$4,387	$1,175
Percent of military engine sales	0.0373	0.0368	0.0361	0.0369	0.0342	0.0337	0.0338
Percent of total consultation or advisory fees	3.12	0.09	1.77	0.05	0.96	0.38	0.10
Dollars per unit	$31.85	$52.74	$23.63	$53.42	$20.06	$34.54	$90.38
L-13. Depreciation (as claimed for Federal income tax purposes):							
Total	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102	$12,758,102
Amount applicable to military engine sales	$355,496	$9,644	$203,110	$6,161	$118,691	$48,306	$12,831
Percent of military engine sales	0.3694	0.3546	0.3599	0.3546	0.3682	0.3708	0.3695
Percent of total depreciation	2.79	0.08	1.59	0.05	0.93	0.38	0.10
Dollars per unit	$315.72	$507.58	$235.63	$513.42	$216.19	$380.36	$987.00
L-16. Traveling:							
Total	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456	$12,832,456
Amount applicable to military engine sales	$388,479	$10,139	$216,966	$6,475	$129,894	$53,230	$14,089
Percent of military engine sales	0.4037	0.3728	0.3844	0.3726	0.4029	0.4086	0.4057
Percent of total traveling	3.03	0.08	1.69	0.05	1.01	0.41	0.11
Dollars per unit	$345.01	$533.63	$251.70	$539.58	$236.60	$419.13	$1,083.77
L-19. Salary and incentive compensation paid to any retired officer of the U. S. Military Establishment:							
Total	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341	$556,341
Amount applicable to military engine sales	$21,612	$548	$10,885	$350	$5,417	$2,107	$569
Percent of military engine sales	0.0225	0.0202	0.0193	0.0201	0.0168	0.0162	0.0164
Percent of total salary and incentive compensation paid to any retired officer of the U. S. Military Establishment	3.88	0.10	1.96	0.06	0.97	0.38	0.10
Dollars per unit	$19.19	$28.84	$12.63	$29.17	$9.87	$16.59	$43.77
L-21. Salary and incentive compensation of every officer paid $25,000 or more:							
Total	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823	$3,261,823
Amount applicable to military engine sales	$109,428	$3,607	$77,576	$2,304	$48,982	$20,267	$5,339
Percent of military engine sales	0.1137	0.1326	0.1375	0.1326	0.1519	0.1556	0.1537
Percent of total salary and incentive compensation of							

every officer paid $25,000 or more	3.35	0.11	2.38	0.07	1.50	0.62		0.16
Dollars per unit	$97.18	$189.84	$90.00	$192.00	$89.22	$159.58		$410.69
J-3. Overtime:								
Total	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100	$12,535,100		$12,535,100
Amount applicable to military engine sales	$209,296	$3,806	$83,994	$2,433	$42,417	$16,936		$4,542
Percent of military engine sales	0.2175	0.1400	0.1488	0.1400	0.1316	0.1300		0.1308
Percent of total overtime	1.67	0.03	0.67	0.02	0.34	0.14		0.04
Dollars per unit	$185.88	$200.32	$97.44	$202.75	$77.26	$133.35		$349.38
K-. License or royalties fees:								
Total	$439,950	$439,950	$439,950	$439,950	$439,950	$439,950		$439,950
Amount applicable to military engine sales	$14,131	300	$7,287	$191	$5,230	$2,241		$590
Percent of military engine sales	0.0147	0.0110	0.0129	0.0110	0.0162	0.0172		0.0167
Percent of total license or royalties fees	3.21	0.07	1.66	0.04	1.19	0.51		0.13
Dollars per unit	$12.55	$15.79	$8.45	$15.92	$9.53	$17.65		$44.62
Air Force contract No	33 (038) 18132	33 (600) 26218	33 (038) 18132	33 (600) 26218	33 (038) 20187	33 (600) 26218	33 (600)	23564
	33 (600) 22426	33 (600) 27495			33 (600) 26218	33 (600) 27495		
	33 (600) 30450				33 (600) 30388			

Mr. COURTNEY. I don't know which one of you chooses to answer this question. It relates only to the subject matter contained in the questionnaire; whichever one is best equipped.

Mr. HURLEY. I think Mr. Dykstra is best equipped to hear from on that.

Mr. COURTNEY. Then we will hear from Mr. Dykstra on this subject.

Mr. Dykstra, the first question has to do with item No. 21.

I am on page 1209.

Mr. HÉBERT. 1209, members of the committee.

Mr. COURTNEY. The salaries of the executives are recited as being salaries of Curtiss-Wright Corp.

I would ask whether or not all of the salaries are derived from the Wright Aeronautical or are derived from the work done by the Wright Aeronautical division.

Mr. DYKSTRA. No, sir, they are not.

Mr. COURTNEY. They represent, then, so we may fully understand the picture, the total compensation received from all sources within the Curtiss-Wright Corp.?

Mr. DYKSTRA. That is correct.

Mr. COURTNEY. The second question:

On page 1214, if I may very quickly total, the column under "Profit before taxes" for the 5 years covered—the total comes out at $258,-812,150.

The profit after taxes, $118,062,145.

I also compute the total profit from military sales at being $61,917,-634, and the profit from commercial sales, $56,144,511.

Mr. MILLER. What page are you on?

Mr. COURTNEY. Page 1214.

I want to ask you a question with reference to the distribution of burden between Government contracts or military sales, as you describe them, and commercial sales.

There is a revised sheet on that, isn't there?

If you will look at your sheet, please, the substance of it is:

It appears that the burden attributable or distributed to military sales is substantially lower in proportion to the total amount of sales made by the company, which in turn are attributed, I take it, under accounting practice, to the private sales.

I wanted to ask you the reason for the difference.

Mr. DYKSTRA. May I ask the page number again, please?

Mr. COURTNEY. Page 1190.

Mr. DYKSTRA. The burden that you refer to are the items——

Mr. COURTNEY. Overhead burden.

Mr. DYKSTRA. Specified on that page, is that correct?

Mr. COURTNEY. Yes. I may say to you—you can take almost any one of them, and the relationship percentagewise seems to be about the same. I wondered if there was some explanation of that method of accounting.

Mr. HURLEY. Isn't the answer that that is the amount that is agreed to by an allocation with the Air Force and allowances or disallowances at the time the particular transaction is entered into.

Mr. DYKSTRA. That is in effect the answer, yes.

Mr. HURLEY. It varies from time to time.

Mr. DYKSTRA. It does vary.

Mr. COURTNEY. Yes. Then we would understand under this practice of accounting that the figures you distribute as burden, to be borne by military contracts, arise in some way, if they are different from your practice on commercial sales, from determination of contracts and allowance of costs by the Department of Air Force?

Mr. DYKSTRA. No, that is not basically our accounting system.

Allocation of various items of burden in general are on the basis of a proration between the two elements of business, that is, military and commercial.

Mr. COURTNEY. It is because of the variance I am asking the question.

Mr. DYKSTRA. Right.

Mr. HURLEY. Mr. Counsel, these are not items of what we normally call burden or overhead.

Mr. DYKSTRA. No.

Mr. COURTNEY. Call them whatever you please. I will accept anything, then in the way of a name.

Mr. DYKSTRA. Well, burden as we generally refer to it is manufacturing expense. Basically most of these items are general and administrative expense. But be that as it may, with respect to contributions and dues, for example, the amount of money that is expended by Curtiss-Wright is minute as compared to the overall cost of doing business.

Now, there are various disallowances by the Air Force in these areas, disallowances having to do with incentive compensation, for example. The Air Force does not recognize in prices incentive compensation.

Mr. COURTNEY. May I return, then, to the question, which is not by any means intended to suggest the answer.

Mr. DYKSTRA. Right.

Mr. COURTNEY. Because of the great variation between the application of these items on commercial contracts and the application of the same items under military contracts, are we to assume that the lower proportion on military contracts represents either disallowances or figures not agreed to or costs not agreed to in the determination of your military contracts?

Mr. DYKSTRA. Lower proportions as ascribed to the military business result in the main from disallowances.

Mr. COURTNEY. And that would account for the difference in ratio.

Mr. DYKSTRA. That is correct, yes.

Mr. HURLEY. It doesn't account for all of it.

Mr. DYKSTRA. I said generally. Not all areas, no.

Mr. COURTNEY. The question is a general question because of the difference.

Mr. DYKSTRA. The answer was a general answer. There are exceptions, of course.

Mr. COURTNEY. Now a further question. With reference to most of these contracts—you just mentioned incentive contracts. Are any of the contracts which you have here fixed-price incentive-type contracts?

Mr. DYKSTRA. No, they are not. The only fixed-price incentive contracts that we have are in another division of Curtiss-Wright, not the engine division.

Mr. COURTNEY. So all the contracts, which I had assumed, up to this moment are fixed-price redeterminable contracts?

Mr. DYKSTRA. That is correct.

Mr. COURTNEY. Now, on the contracts which you have enumerated here in response to this inquiry, we are dealing, of course, only with production contracts.

Mr. DYKSTRA. That is correct.

Mr. COURTNEY. As to the determination or the redetermination on your contracts, are we to understand in going through this questionnaire that all of the contracts referred to have been redetermined?

Mr. DYKSTRA. They have been redetermined through 1956. They are subject to redetermination on a periodic basis.

Mr. COURTNEY. That is the next question.

Mr. DYKSTRA. Beginning in 1955—and again this is general. There may be contract exceptions. But generally the engine division was on an annual pricing basis with the Air Force.

Mr. COURTNEY. For all contracts?

Mr. DYKSTRA. For all contract, with some exceptions, very few and very slight.

Mr. COURTNEY. Let me ask you this. With respect to all contracts of the type upon which you have been questioned and to which you have responded, are we to understand that there have been annual or periodic redeterminations?

Mr. DYKSTRA. That is correct.

Mr. COURTNEY. During the life of the contract.

Mr. DYKSTRA. During the life of the contract.

Mr. COURTNEY. So we understand, then, that the figures represented to us in the answers to the questionnaire are based upon the last redetermination, and there has been—if a contract is in existence over a year—more than one redetermination.

Mr. DYKSTRA. That is correct.

Mr. COURTNEY. I will ask you whether or not in your dealings with the Air Force you have any formula or set of cost principles in redetermining these contracts?

Mr. DYKSTRA. In our dealings with the Air Force, our method of quoting and negotiating is based upon our total costs.

Mr. COURTNEY. Total cost companywide or total costs on military sales?

Mr. DYKSTRA. Total cost on military sales——

Mr. COURTNEY. Specifically these are the questions. Do you have any agreement, contractual or otherwise, in the redetermination of these contracts with respect to cost allowances, as, for example, incentive?

Mr. DYKSTRA. No, sir, we do not. In other words, with respect to incentive, we violently object, frankly, to the disallowance. We do not agree with the Air Force that it is a proper disallowance. And at all times that we enter into price redeterminations, we request consideration for incentive compensation. Unfortunately, however, it is presently not allowed.

Mr. COURTNEY. We understand, then, on the contracts that were reported to us, the incentive which appears opposite the management salaries is disallowed.

Mr. DYKSTRA. That is correct, but I must make an exception to clear the record.

Mr. COURTNEY. All right.

Mr. DYKSTRA. The Air Force in 2 years allowed incentive compensation, namely 1953 and 1954, during this period, and a portion of the incentive compensation paid in 1955. We were advised by AMC, by letter from General Thurman, that the Air Force changed their policy with respect to the allowance of incentive compensation and from that point forward, that is the beginning of 1955, would no longer be allowed in prices. So during this 5-year period, the year 1952 was a year of unallowed compensation, 1953 and 1954 allowed, a part of 1955, nothing in 1956.

Mr. COURTNEY. The matter of allowance or disallowance, let's take this as a specific item, is not a matter of contract, then, in any of the basic documents to which you have referred in your questionnaire?

Mr. DYKSTRA. It is not.

Mr. COURTNEY. It is a matter of negotiation?

Mr. DYKSTRA. Yes, sir.

Mr. COURTNEY. In determining cost allowances.

Mr. DYKSTRA. Yes, sir.

Mr. COURTNEY. Is that right?

Mr. DYKSTRA. The ultimate result of our redetermination negotiations is a price, not a set of costs.

Mr. COURTNEY. That is from your point of view.

Mr. DYKSTRA. That is from our point of view, that is correct, not necessarily from the Air Force's.

Mr. COURTNEY. With respect to these contracts which have been referred to, just give us a general picture on the individual contracts. Do you have final contract documents on these contracts, or are you still operating under letter contracts?

Mr. DYKSTRA. We have final contract documents.

Mr. COURTNEY. On all of these?

Mr. DYKSTRA. Yes, sir.

Mr. COURTNEY. So we may be confident that there is a final contractual arrangement.

Mr. DYKSTRA. On all production contracts, they are finalized into definitive form.

Mr. COURTNEY. Now, to just very quickly summarize, can you give us the items that are included in what you call general administrative overhead in your accounting practice?

Mr. DYKSTRA. Well, overhead and general and administrative are two different classifications.

Mr. COURTNEY. Right. Take overhead first.

Mr. DYKSTRA. What is contained in overhead is the cost of manufacturing, which includes, for example, the cost of inspection in the plant, the cost of supplies, and cost of maintaining the plant, the cost of tooling, the cost of rearrangement—which is an everlasting thing as far as production of aircraft engines is concerned.

G. and A. is composed generally of the administrative costs of operating the business, which would include some portions of the finance department, legal, etc.—treasury and service.

Mr. COURTNEY. Let me ask you this: Do you carry the item of premium overtime in overhead?

Mr. DYKSTRA. Yes, we do.

Mr. COURTNEY. I notice that in your report you state that by contract the Air Force had agreed that a maximum percentage of 8.33 might be allowed as premium overtime.

Mr. DYKSTRA. That is correct.

Mr. COURTNEY. Your chart also shows——

Mr. DYKSTRA. Page 1180.

Mr. COURTNEY. Your chart also shows that since the inception of that agreement, if it was an agreement, that the premium overtime which you carry in overhead has not reached the maximum of 8.33 percent.

Mr. DYKSTRA. That is correct.

Mr. COURTNEY. Can you tell us the reason for the establishment of the 8.33 percent?

Mr. DYKSTRA. The industry, in general, during the period of time that that agreement was in effect and was actually contained in the contracts then existing, was in such a position that to meet the Air Force requirements of the products that they needed, the lack of machine tools, the lack of priorities in certain areas, the difficulties in suddenly expanding manpower requirements, and the myriad of other problems that were existing then, were recognized by the Air Force in this form, that such overtime would be necessary to accomplish their objectives.

However, in order to properly control and administer, the Air Force insisted upon a ceiling, to which we agreed. Quite obviously, it was neither the intent of the company or the Air Force to expend overtime dollars unless actually required.

In our particular operation, as this chart, I think, clearly shows, we demonstrated our ability to control that overtime, but nevertheless meet the Air Force requirements.

Mr. COURTNEY. So as demonstrated on this chart, the ceiling has never been reached, or if reached, was only maintained for a short while.

Mr. DYKSTRA. That is correct. It was never reached.

Mr. COURTNEY. It was never reached.

Mr. DYKSTRA. Now, the other reason, actually, for this type of transaction, in actually contracting for overtime, was to afford an overall approval rather than an individual approval of the contracting officer every time a 2 or 3 overtime problem arose.

Mr. COURTNEY. So that to avoid that trouble, you reached a formula agreement, or established a ceiling within which you could operate?

Mr. DYKSTRA. That is right.

Mr. COURTNEY. One further question, which is merely a matter of detail. Page 1159 gives a total of sales on the contracts which have been referred to, at $1,618,855,242.

Mr. DYKSTRA. Correct.

Mr. COURTNEY. Now I turn to page 1198, in which you refer to total sales to Government versus total sales of company.

Mr. DYKSTRA. Yes, sir.

Mr. COURTNEY. If I am correct in my addition, column 2, which is sales to the Government for the period in question, come to $1,875 million, there is a difference of $200 million.

Mr. DYKSTRA. Yes. The reason for that is that on page 1198 the figures contained therein are the consolidated figures of the Curtiss-Wright Corp. and include the sales of all the divisions, which is what we understood the question to refer to.

Mr. COURTNEY. Well, I have no quarrel with that. I merely wanted to know how the figures happen to be different. And what is the difference.

Mr. DYKSTRA. Page 1159 refers only to those contracts performed by the engine division.

Mr. COURTNEY. Then the figure on page 1198 is a more comprehensive figure?

Mr. DYKSTRA. That is right, corporately, yes.

Mr. COURTNEY. Corporatewise.

Mr. Chairman, I think those are about the only questions we had to ask for explanations on answers to the questionnaire.

Mr. HÉBERT. I want to ask one question in connection with the commercial business as compared to the Government business. In the manufacture or the production of your commercial business, Mr. Hurley, do you use any Government facilities or tools?

Mr. HURLEY. Mr. Chairman, we have sufficient machines and tools to build all of our commercial products. We don't have sufficient to build the Government products—I am not speaking of engines. And we have an intermixing of Government and commercial, on our time when a piece will be made on a Government machine or a commercial machine. But we do have all the facilities necessary to conduct our commercial business. And we have this philosophy, sir. We feel strongly that we should supply facilities in our company, and that is why we have been spending a great deal of money.

And each Government activity we have had: I have tried to set up a commercial activity and that would offset some of the disallowances from the military and allow us to build a facility to make that product.

Mr. HÉBERT. In other words, you do not have an overlapping of usage of Government facilities in the production of the commercial product, except that one offsets the other, in your opinion?

Mr. HURLEY. One offsets the other, with an exception of this kind, sir. On the big press which I referred to: there we wanted to buy the big press and we were unable to. They told us there was just no way it could be done. So there we have an arrangement with the Air Force that we bring in commercial business to keep that big press busy, and we pay the Air Force for that. So the Air Force's investment is not standing idle. We are getting maximum utilization from it, and where it is used for commercial product they will pay for it.

Mr. HÉBERT. The Government is reimbursed where you use Government facilities?

Mr. HURLEY. Yes.

Mr. HÉBERT. That is all.

Mr. COURTNEY. Mr. Chairman, if the committee wanted to follow this section of the questionnaire, Government-owned property is on page 1212. And 1213 is the rental account.

Mr. HÉBERT. Now one other question that comes to my mind, that I overlooked at the time. In connection with the employment of retired military personnel——

Mr. COURTNEY. That is set forth.

Mr. HÉBERT. That is set forth?

Mr. BATES. Page 1190.

Mr. HÉBERT. I wanted to bring it to attention.

Mr. HURLEY. Mr. Chairman, on Government facilities I would like to make an observation, sir. The Goverment, I think, as you know, does not depreciate the facility.

Mr. HÉBERT. I know that.

Mr. HURLEY. The Government facilities are in there at first cost, and many of them are 10, 12 years old, and really should be depreciated by commercial practices, down to 20 percent, or what they are now on the books. So it has the effect of making Government facilities appear much more important in relation to commercial.

Mr. HÉBERT. Well, you answered the question categorically. That is all. I just wanted to know if there was any interchange. You said it was offset, except in the case of the big press, where the Government is reimbursed.

Mr. HURLEY. Right.

Mr. BATES. What are these contributions or dues on page 1190?

Mr. DYKSTRA. There is a detailed sheet, Mr. Bates. Just a minute.

Mr. BATES. Just generally.

Mr. HILL. Page 1204 of the printed booklet is the detail of those, everything over $1,000.

Mr. DYKSTRA. Yes. As you can see, the amounts of money are not material.

Mr. BATES. Those were all allowables?

Mr. DYKSTRA. In the main, yes.

Mr. HILL. I also would like to comment that this is a question which classified originally as being a corporate question. Therefore, this covers the entire corporation. You will notice down here, for example, at the bottom, "Spun Glass Institute." That was the plastics division. It has nothing to do whatsoever with the engine divison, and none of which was charged against the engines.

Mr. BATES. I think we got into that question on the airframe industry, didn't we?

Mr. HÉBERT. Very extensively.

Mr. BATES. I wonder if you would comment just briefly on the percentages involved here, on page 1190, and particularly in view of the fact that 65 percent of your work was commercial?

Mr. HURLEY. The profit was commercial, sir.

Mr. BATES. It seems to be quite a bit lower. Is that also because things have been disallowed?

Mr. DYKSTRA. That is right.

Mr. HURLEY. Yes, sir.

Mr. DYKSTRA. The percentages here actually are sixteen-thousandths of 1 percent.

Mr. HILL. Of 1 percent.

Mr. DYKSTRA. So the effect on cost and/or pricing is minute.

Mr. BATES. They seem to have been cut in half as the business expanded, too. So you spread those items over a larger figure?

Mr. DYKSTRA. That is right.

Mr. HURLEY. Mr. Bates, you asked a question here about cost. I have a staff whose job it is to see that we are reducing overtime, we are reducing contributions, we are reducing advertising, we are reducing power. We have a constant effort in that direction and we can show you the results of our effort over 5 years on any item, sir.

Mr. BATES. I can see it right here on 1190.

I have no further questions.

Mr. HÉBERT. In connection with advertising, institutional advertising or recruitment advertising—is that charged against your contract?

Mr. DYKSTRA. Yes, sir. The military does not allow advertising other than the items you have mentioned; namely, some small amounts for trade journals, and so forth, and employment recruiting.

Mr. HURLEY. Mr. Chairman, may I comment on that?

Mr. HÉBERT. Yes.

Mr. HURLEY. You noticed in the Sunday Times and other papers a lot of very unusual display advertising.

Hr. HÉBERT. That is what I had reference to.

Mr. HURLEY. Curtiss-Wright is conspicuous by its absence. I have no part of that.

Mr. HÉBERT. What is your experience in connection—with your recruitment programs and your employment of engineers and scientists?

Mr. HURLEY. I can speak for that, sir.

We had no difficulty hiring the people that we wanted. If you will look at our advertising—we will be glad to show you one. We did an unusual type or kind of advertising. We put an ad out occasionally, one advertisement, maybe a quarter of a page, and we direct it to people in all walks of life. Instead of getting the usual reply of 5 or 6 that you get from the classified ads, those occasional ads of ours, that would come out maybe 6 months apart—we get replies in the order of six, eight hundred or a thousand people. We would have replies from general managers of companies, vice presidents, controllers, engineers—all sorts of people. We build up a backlog of these applications. Then when we want people, we go back to those letters and look for them.

Mr. HÉBERT. What is your turnover in engineers?

Mr. HURLEY. The turnover in engineers is rather high because we have what I call the jumpers, the man who works with you long enough to get some training and then he represents himself as qualified and looks for a little more money somewhere else, and then he does the same thing all over again.

We have tried to stop that with incentive compensation, by paying him some incentive compensation and distributing it over a 5-year period so if he tried to jump, he was going to lose this incentive compensation.

We felt incentive compensation was a very necessary thing to help us reduce costs and improve engineering. Unfortunately, the Air Force didn't agree with that and they disallowed it.

Mr. HÉBERT. What is your percentage of turnover, Mr. Hurley?

Mr. HURLEY. I can't answer it to you direct, but I will get it for you, sir.

Mr. HÉBERT. Well, as my recollection serves me, I think the airframe industry is about 18——

Mr. COURTNEY. Seventeen percent.

Mr. HÉBERT. Seventeen percent turnover.

Mr. HURLEY. Four percent, sir.

Mr. HÉBERT. Four percent.

Mr. HURLEY. It is much lower than the west coast experience.

The other thing we have done, sir, is we have arranged our retirement plan so we can hire people in the bracket of 50 years of age,

and still give them some retirement. We have looked for the older, more experienced man, that for some reason or other was in a position he was unhappy with or out of a job or some other reason.

Mr. HÉBERT. You do have your retirement plan to include those 50 and over?

Mr. HURLEY. I believe our top is 58.

Mr. HÉBERT. Fifty-eight?

I think that is very revealing.

Mr. HURLEY. Yes, sir.

We have the experience in our export division of hiring a comptroller who retired from another company at 65. He has been with us for 5 years, and he is one of the best comptrollers we have, and he has earned his money again and again. He is happy.

Mr. DYKSTRA. As a matter of fact, he was comptroller of J. C. Penny Corp.

Mr. HÉBERT. I am approaching that age, and I just wanted to know.

Mr. HILL. Unfortunately, he is not in our retirement plan.

Mr. OSMERS. Mr. Chairman, I just wanted to make an observation there.

I have introduced several bills and resolutions in Congress which have for their purpose to end discrimination in employment for the reason of age. I am very happy to have one of our large companies come in here and show that they have an enlightened policy with regard to older workers and that it is producing results. I think they are to be commended for that. I didn't know they had such a program.

Mr. HURLEY. May I make one other comment on incentive compensation?

Mr. HÉBERT. Yes.

Mr. HURLEY. It has been lost to the president and chairman of the company, Mr. Hill. I am down as having gotton $200,000 incentive compensation last year. Mr. Hill came in and gave me my check and says, "Well, this is one you are not going to cash." It was zero. It all went into taxes.

So it has lost its incentive to the chairman of the board and the senior members. But it is of vital importance to the executives down below. It gives them something—if he should die, for example, his wife has this little incentive compensation coming for 4 or 5 years. So I feel very strongly it should be allowed for companies, but there are two philosophies and there is nothing we can do about it.

Mr. HESS. What are your starting salaries for young engineers who are graduates of colleges with bachelor degree?

Mr. DYKSTRA. They vary, depending upon the type of engineering skill. It may vary between $425 and $475, I think.

Mr. HESS. What, with a master's degree?

Mr. DYKSTRA. A master's degree is $600 to $625 a month.

Mr. HESS. About $125 or $150 difference?

Mr. DYKSTRA. That is correct.

Mr. HURLEY. This is one other thing I think you should know on engineering:

We are the only aircraft company that has an engineering assistance agreement with the Hawker-Siddley group in England and the Bristol group. We draw on them. So, in effect, we get engineering work

from that organization, on the development of components and things, that we don't have to spend money for here in the United States.

One of the things we are able to do to solve some of these problems:

With these Studebaker-Packard contracts, there was a requirement that we were able to fill by drawing on the work that was done in engineering in Germany and to make it available to help on the conditions that existed in Studebaker-Packard.

Mr. HÉBERT. Any further questions, members of the committee?

No further questions, Mr. Courtney?

Mr. COURTNEY. No questions on the answers to the questionnaire.

Mr. HÉBERT. Thank you, gentlemen, very much.

Mr. Hurley, you understand the situation as related to the Studebaker-Packard matter?

Mr. HURLEY. Yes, sir.

Mr. HÉBERT. The committee is at your disposal whenever you care to make comments.

Mr. HURLEY. Thank you.

We are preparing the data, and we will know by Monday how soon we can have the data that you asked for.

Mr. HÉBERT. It is at your convenience.

Mr. HURLEY. Thank you.

(The data referred to follows:)

A Supplemental Statement

by

ROY T. HURLEY

Chairman and President

CURTISS-WRIGHT

CORPORATION

To the Sub-Committee for Special Investigations
of the Committee on Armed Services, House of Representatives

August 23, 1957

CURTISS-WRIGHT CORPORATION

WOOD-RIDGE, NEW JERSEY

August 23, 1957

The Honorable F. Edward Hebert, Chairman
Sub-Committee for Special Investigations
Committee on Armed Services
House of Representatives
Washington, D. C.

Dear Mr. Hébert:

We are presenting herewith the additional data requested by the Committee. For convenience it has been printed and is available in additional quantities if you desire.

Because of the Committee's interest in cost reduction we have avoided theoretical recommendations and have drawn on accomplished facts to demonstrate to the Committee a practical approach to cost reduction.

Sincerely yours,

Roy T. Hurley

Cost Reduction Recommendations

All of us recognize the advances which have occurred in the field of aeronautics. These technical advances must continue at a rapid rate if our country is to maintain air superiority. We seem to realize that the continuing development of manned aircraft and the new field of guided missiles and other weapons have created great demands for qualified engineering research and development skills. But too often, we fail to realize the relationship which must exist between developing a new product and having the manufacturing capability to produce it at a price we can afford to pay.

This capability to manufacture at low cost requires the availability at all times of modern machine tools and facilities to shape and form new and tougher materials which cannot be processed over obsolete equipment except at excessive cost in time and money.

Because of the low profit margins experienced by the aircraft industry, military contractors have not been able to justify to their stockholders the substantial and continuing investment required for new tools. Furthermore, the rapidity with which these tools become obsolete in the aircraft industry has not been properly recognized by current tax laws which do not allow depreciation rates commensurate with actual rates of obsolescence. Low profit margins and inadequate depreciation rates discourage private investment in facilities.

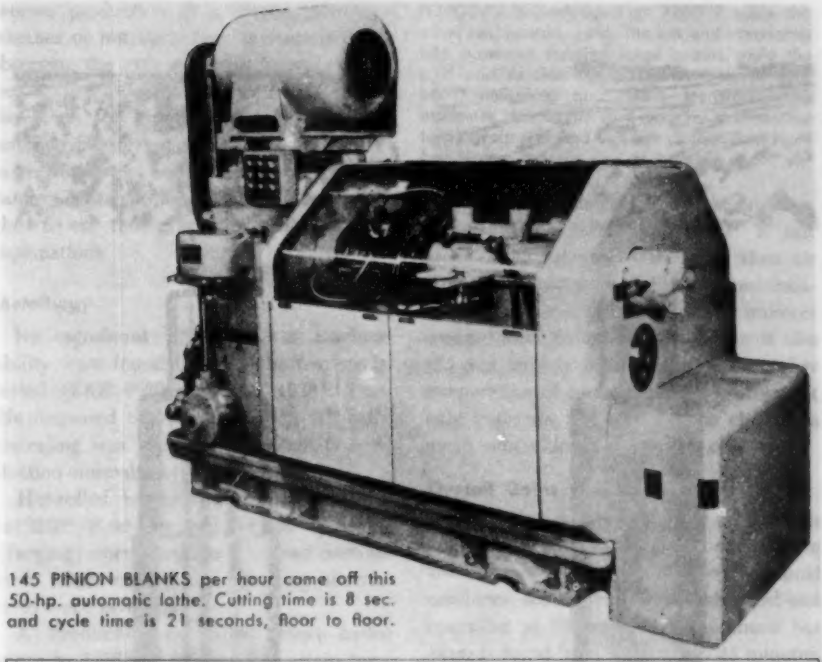
The result is an aircraft industry faced with the alternatives of either investing its own or borrowed capital in facilities it needs but cannot justify from a business standpoint, or waiting until after engineering prototypes have been proven — and a production contract is awarded — for the government to release a facilities contract. Under present procurement policies and procedures which restrict profit mar-

gins, and do not fully recognize depreciation costs, the government has unfortunately had to furnish the tools all too often. Another alternative is for the contractor to find an excuse to acquire excess government facilities, with the hope of having these facilities available and thereby having a preferred position when production contracts are awarded.

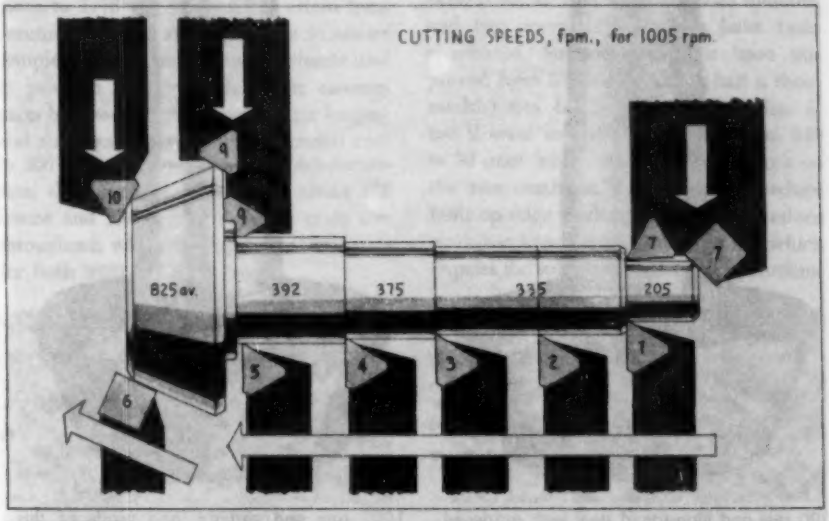
The serious effect of relying upon government-furnished facilities is readily apparent. Since a facilities contract is usually not awarded until after receipt of a production contract, lead times between the start of product development and delivery of production quantities are greatly extended. Today, we as a nation cannot afford the luxury of wasting valuable time and money in this way.

The aircraft industry can be strengthened by encouraging it to invest its own funds to provide and keep modern the facilities needed to delivery quality products, on time and at lower costs. To justify its investment in these facilities, the aircraft industry must be permitted to earn a reasonable profit and must be allowed adequate depreciation rates fully recognized in the price of its products. Modern machine tools can lop at least 20 to 30% off product costs — an amount far in excess of the increase in profit margins and depreciation rates required to enable our government to cash in on real cost reductions.

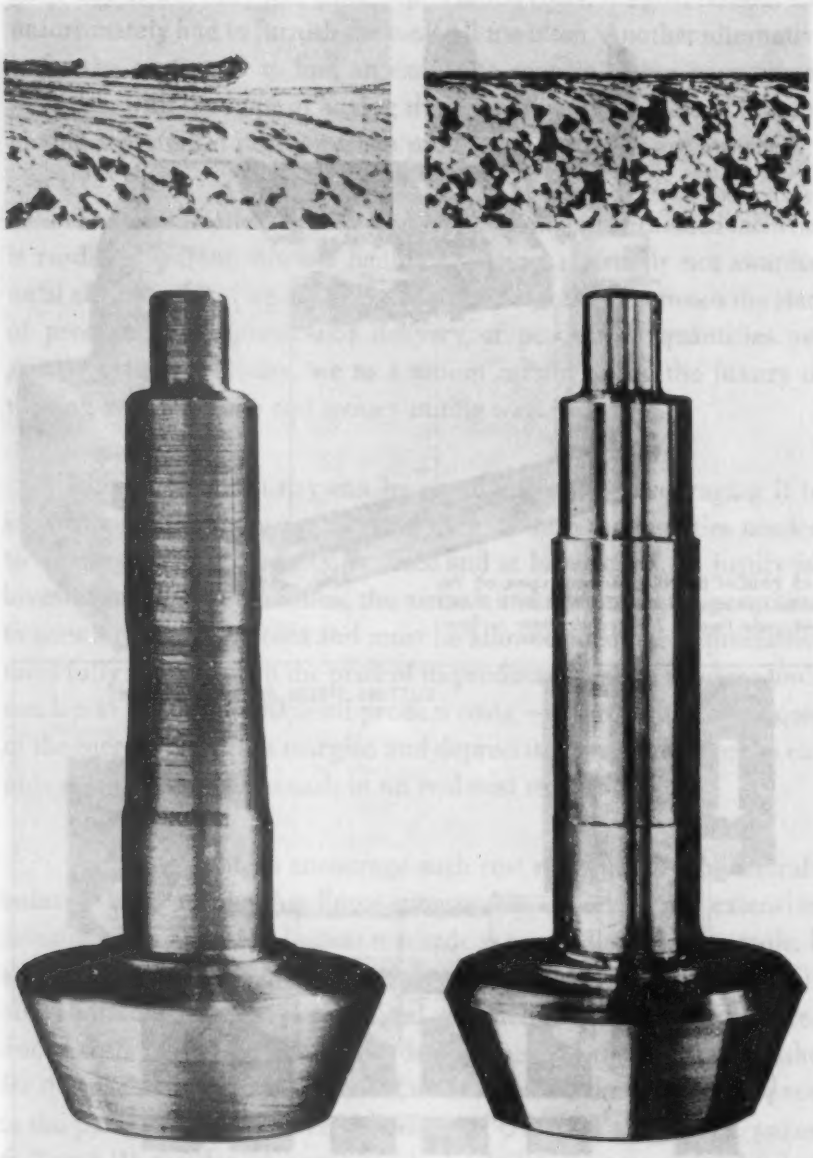
Curtiss-Wright, to encourage such cost reduction by the aircraft industry has — under Air Force sponsorship — carried out extensive investigations of cost reduction methods as applied to machine tools. I am attaching a copy of the first of three books which were made available to industry, and it is requested you include in the record the reduced costs experienced with the development of the automatic lathe for the machining of pinion gears. I would like to make special reference to the paragraph on Page 78 referring to "Overall Gains". (See pages 6, 7 and 8) Similar advances can be made in all areas of production provided the manufacturer is encouraged.



145 PINION BLANKS per hour come off this 50-hp. automatic lathe. Cutting time is 8 sec. and cycle time is 21 seconds, floor to floor.



TEN TOOLS operating on two slides simultaneously turn, face and chamfer all surfaces. Cutting speed ranges from 950 fpm maximum to 205 fpm at the smallest diameter. Feed is .015 in. per rev. Tool number 6, operating at 825 fpm average, has the limiting tool life.



300 rpm and high-speed steel tools produced this piece. Finish is about 500 microinches.

1000 rpm and carbide tools produced this piece. Finish is 200 microinches or better.

oversee production at a glance, noticing whether or not cycle time is constant and observing the rate of power increase with tool dulling. Unusual power increases, as shown on the graph, may indicate some machine failure not immediately apparent to the operator, and can forestall serious damage. Interruptions to production, also shown on the graph, would require explanations.

Metallurgy

No significant differences in machinability were found between the two steels tested (SAE 8620 and SAE 4028). Tool life increased considerably when salt-bath annealing was used in preference to production normalizing.

Hot-rolled barstock is induction-heated to 2200° F at one end for the upsetting (forging) operation. The other end remains cool. After forging, the following alternatives were investigated:

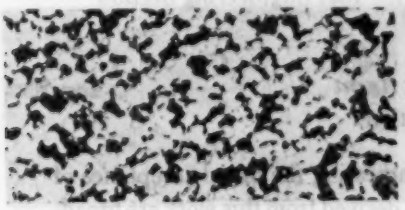
1. Production normalize: Heat entire piece to 1775° F, 1¼ hours to attain temperature, 2 hours at temperature to assure complete transformation into austenite and to promote grain growth. (This assumes parts had been random-cooled after forging and subsequently reheated.) Furnace cool to 900° F in 4 hours for slow transformation; then air cool. Structure is about 75% ferrite and 25% pearlite uniform grain size throughout, with some banding. This holds for both 8620 and 4028 steels.

FORGING is performed at 2200°F while the other end remains cold. The hot end transforms into austenite forming large grains while the cold end retains its as-rolled structure. Salt-bath annealing at 1200°F transforms the austenite into ferrite and pearlite maintaining large grain size and uniform distribution. Note banding and grain size at the cold end. →

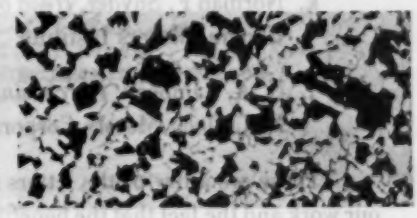
2. Salt-bath anneal: From the upsetter immerse immediately into 1190° F salt bath for 45 minutes, water dip, then air cool. This causes isothermal transformation at minimum time and assures uniform cooling throughout. Microstructure is like (1) but slightly coarser due to its higher temperature of formation. This process not only improves tool life but also eliminates much rehandling and furnace cost.

Overall Gains

Production is now obtained on this one lathe equal to that formerly obtained in two operations with seven conventional machines, tooled with high-speed steel and operating at 300 rpm. Heat treatment has been reduced from 7¼ hours to 45 minutes, and two complete operations have been eliminated. Surface finish has been improved from 570 microinches (half a thousandth) rms. to 250 microinches or less at the slowest cutting speeds, and from 340 to 90 microinches at the highest speeds on the two machines. Higher speeds reduce built-up edge tendency, and greatly reduce work-hardening at the work surface, which impairs the subsequent finishing operations.



NORMALIZING requires 3½ hrs. furnace time at heat; 4 hrs. cooling time to produce uniform grain size and eliminate harmful banding.



SALT-BATH ANNEALING utilizes forging heat, and requires only 45 min. in the brine tank, and the resulting structure is much coarser.

The recognition of our work by the industry is reflected by letters from:

a. C. E. Mines, *Chief, Engineering Services*
Allison Division, General Motors Corporation

b. E. W. Wecker, *General Foreman*
Buick Motor Division, General Motors Corporation

c. C. L. Sadon, *Manufacturing Engineer*
Aircraft Gas Turbine Division, General Electric Company

d. I. R. Hoyser, *Aircraft Nuclear Propulsion Project*
General Electric Company

e. H. R. Bruer, *Methods Engineer*
Westinghouse Electric Corporation

f. E. J. Krabacher, *Research Engineer*
Cincinnati Milling Machine Company

g. J. P. Bunce, *Project Engineer*
Kearney & Trecker Corporation

h. B. M. Jones, Jr., *Assistant Purchasing Agent*
Lodge & Shipley Company

i. D. W. Trinklein, *Plant Metallurgist*.
Chrysler Corporation

j. Harry Kifor, *Process Engineer*
Canton Forge Division, Ford Motor Company

k. Norman F. Snyder, *Head of the Tool Engineering Section*
General Motors Institute

l. N. A. Lamberti, *Purchasing Agent*
McCulloch Motors Corporation

These are a few of the letters indicating the broad acceptance of our work and the fact that the benefits derived from this work are broadly spread across industry. You will note that many of these letters came from machine tool builders whose products are distributed to all industry. Curtiss-Wright has shared this know-how and knowledge with all government contractors for the asking.

ALLISON DIVISION
GENERAL MOTORS CORPORATION
INDIANAPOLIS 6, INDIANA
CABLE ADDRESS "ALLISONENG"

18 June 1952

IN REPLY REFER TO

Wright Aeronautical Corporation
Division of Curtiss-Wright Corporation
Wood-Ridge, New Jersey

Attention: Mr. W. G. Lundquist
Chief Engineer

Gentlemen:

1. I have examined a reprint enlarged from microfilm, of a book entitled, "Increased Production, Reduced Cost Through a Better Understanding of the Machining Process and Control of Materials, Tools, Machines" which was published by your company as a result of work done for the Air Materiel Command under contract. Much of the information to be gained from this highly valuable report is lost through the deficiencies of photographic reproduction process from the microfilm and we are very desirous of obtaining if possible a copy of the printed and backed edition of the report.

2. Any suggestion which you can offer in helping us to obtain one or two copies of this book, and if still available copies of the first report published in 1950 under this same program, your cooperation, will be indeed appreciated.

Very truly yours

ALLISON DIVISION
General Motors Corporation

C. E. Mines
Chief, Engineering Services

CEM:mhs

BUICK MOTOR DIVISION
General Motors Corporation
FLINT 2, MICHIGAN

VALVE-IN-HEAD Buick STRAIGHT EIGHT

July 26, 1951

Curtiss-Wright Corporation
Woodridge, New Jersey

Dear Sir:

I would like to have a copy of your book on "Increased Production, Reduced Costs, Control of Materials, Tools, and Machines."

I feel that the information contained in this book will be very valuable to me on the J-65 Engine.

Yours very truly,

Ernest W. Wecker
General Foreman
Tool & Cutter Division
Buick Motor Division
Building #08
Flint 2, Michigan

Ernest W. Wecker

db

GENERAL ELECTRIC COMPANY
APPARATUS DEPARTMENT
AIRCRAFT GAS TURBINE DIVISIONS
920 WESTERN AVENUE, WEST LYNN 3, MASS. . . TELEPHONE LY 3-6000

July 14, 1951

Curtiss-Wright Corporation
Wood-Ridge
New Jersey

Gentlemen:

I had the privileged opportunity to attend MIT's summer session course on Metal Cutting, given by Dr. M. C. Shaw.

Realizing now how very little is known by the average Tool Engineer or Foreman when it comes to the exact Science of cutting metals, I would like to probogate the information I gained through a series of lectures. I believe that your book "Increased Production-Reduced Costs - Through Better Understanding of the Machining Process and Control of Materials, Tools, Machines" is an ideal textbook for such a course.

What arrangement could I make to obtain about thirty of these books to be used for such a purpose.

Very truly yours,

Charles L. Sadon
Manufacturing Engineer

Aircraft Gas Turbine Division

CLS/ljd

GENERAL ELECTRIC COMPANY
AIRCRAFT NUCLEAR PROPULSION PROJECT
POST OFFICE BOX 132 • CINCINNATI 15, OHIO • TELEPHONE VALLEY 7400

April 24, 1952

The Commanding General
Air Material Command
Wright-Patterson Air Base
Ohio

Attention: MCPEKS - 4/JJC

Please arrange to have forwarded 2 copies of the U. S. Air Force Machinability Reports, 1950 - 1952 together with any supplements to the writer, c/o General Electric Co. ANP Project, Building D - E-6, Box 132, Lockland 15, Ohio.

There is no question but that the information in the reports will be of extreme value to us in solving the problems encountered in manufacture of parts for this project. Mr. Welsh of the Cincinnati A.F.M.C. Office was kind enough to loan me a copy which convinced us of the need.

Your early co-operation will be greatly appreciated.

Yours very truly,

I. R. Hoyser

IRH:rs

WESTINGHOUSE
ELECTRIC CORPORATION

May 6, 1953

Curtiss Wright Corporation
Wood-Ridge, New Jersey

Dear Sir:

Today I had the pleasure of looking at your United States Air Force Machinibility Report Volume II which you recently sent to our Mr. P. E. Cowan.

At present I am engaged in determining the best feeds, speeds and grades of carbides for machining jet engine alloys here in our shop.

I feel that Volumes I and II would be definite help to me on this project.

Would you please send me these volumes or information as to how I may obtain them?

Very truly yours,

H. R. Bruer

H. R. Bruer
Methods Engineer
Department 40
95th & Troost
Kansas City, Missouri

HRB:vp

94707 O—57——9

THE CINCINNATI MILLING MACHINE CO.

MACHINE TOOLS FOR MILLING, BROACHING,
GRINDING, LAPPING, CUTTER SHARPENING
Harburg Avenue
CINCINNATI · 9 · OHIO · U·S·A·

CABLE ADDRESS "MILLING"

August 19, 1953

Mr. R.T. Hurley
Curtiss-Wright Corporation
Wood-Ridge, New Jersey

Dear Mr. Hurley:

We here at The Cincinnati Milling Machine Company have followed with great interest the material presented in Volume 1 of the United States Air Force Machinability Report. We consider it to be a genuine source of information, most useful among our staff members as a ready reference on sound machining practice.

It was our good fortune to secure four copies of Volume 1 of the U.S. A.F. Machinability Report. These were carefully distributed among those staff members most closely associated with the problem of machinability. We should like to be able to supplement these with copies of Volume 2 of the U.S. A.F. Machinability Report.

At the suggestion of Mr. John Kahles, I am writing in the hope that you may be able to supply us with four copies of Volume 2. These would be carefully distributed and most gainfully put to use.

Yours very truly,

E. J. Krabacher

E.J. Krabacher
Research Engineer

lf

KEARNEY & TRECKER
CORPORATION

MILWAUKEE 14, WIS., U. S. A.

December 15, 1950

Curtiss Wright
Woodridge, New Jersey

Attention: Public Relations Department

Gentlemen:

We have just had an opportunity to review a publication entitled "United States Air Force Machinery Ability Report of 1950." This is a remarkable piece of literature on the subject and embraces many factors involved in machining which ordinarily must be obtained from many different sources.

Since we are involved daily in problems similar to those explained to some length in this report, we would appreciate it very much if you could forward two copies of this report to the writer; one for his personal use, and the other for the use of Mr. Garth Courtois, head of our Special Machine section.

We appreciate your cooperation in this respect, and ask that you bill us for any charges involved in forwarding this report to us.

Very truly yours,

KEARNEY & TRECKER
Corporation

J P Bunce

J. P. Bunce
Project Engineer

JPB:mm

THE LODGE & SHIPLEY COMPANY
3055 COLERAIN AVENUE
Cincinnati 25, Ohio
PHONE KIRBY 4774

WILLIAM L. DOLLE
PRESIDENT & GENERAL MANAGER
LOUIS L. WEBER
VICE PRESIDENT - SPECIAL PRODUCTS
J. HERBERT MYERS
VICE PRESIDENT - MACHINE TOOL SALES
RALPH W. MILLER
SECRETARY & CONTROLLER

CABLE ADDRESS
"LODGESHIPLEY"

June 9, 1953

Curtiss-Wright Corp.
Wood Ridge,
New Jersey

Attention: Mr. R. T. Hurley

Gentlemen:

Please send us two copies of United States Air Force Machinability Report, Volume II. We have copies of the 1950 Report and find it quite valuable.

Mark shipment for attention of the writer.

Yours very truly,

THE LODGE & SHIPLEY COMPANY

Barton M. Jones, Jr.

Asst. Purchasing Agent

Barton M. Jones, Jr./K

CHRYSLER CORPORATION

Detroit 31, Michigan

Feb. 16, 1952

Curtis-Wright Corporation
Wood-Ridge,
New Jersey

Gentlemen:

I have had the opportunity to read both volumes you have published to date on machinability. Nowhere in the literature have I found as clear and direct approach as you have presented.

This information has been extremely useful to me, since our plant is engaged in a large amount of machining.

Would you please inform me how I might acquire both of these volumes.

Very truly yours,

CHRYSLER GEAR & AXLE PLANT
6700 Lynch Road
Donald W. Trinklein
Donald W. Trinklein
Plant Metallurgist

DWT/vp

Ford Motor Company

CANTON, OHIO October 16, 1951 FACTORY AND GENERAL OFFICES DEARBORN, MICHIGAN

Mr. R. T. Hurley
Curtiss-Wright Corp.
Wood Ridge, New Jersey

Dear Sir:

The machinability research program that was carried out under your supervision has been a great contribution to the application of metal cutting.

My purpose in writing this letter is to obtain all the publications that have been issued on this program and I also would appreciate any new publications that might be issued in the future.

Thank you in advance for any consideration in the matter.

Harry Kifor

Harry Kifor
Process Engineer
FORD MOTOR COMPANY
Canton Forge Division

HK:ot

GENERAL MOTORS INSTITUTE

FLINT 2, MICHIGAN

July 28, 1953

Curtiss-Wright Corporation
Wood-Ridge, New Jersey

Att: Mr. R. T. Hurley, President

Dear Mr. Hurley:

I have a copy of the first book released from the Machinability Research Program, entitled "Increased Production — Reduced Cost — Control of Materials, Tools and Machines". This information has proven to be an important teaching aid in my program of Tool Engineering for General Motors student engineers.

I understand that since this publication, however, two other books have been written and released for use.

Please advise as to the availability and cost of these books.

Yours very truly,

GENERAL MOTORS INSTITUTE

N. F. Snyder

Norman F. Snyder, Head
Tool Engineering Section
Industrial Engineering Department

S:bcm

August 25, 1952

Curtiss-Wright Corporation
Woodridge
New Jersey

Gentlemen:

We were recently favored with a copy of "Increased Production, Reduced Costs, Etc." (Report PB106657) prepared by your company. We have found this book to be extremely helpful to our company.

Is it possible for us to secure two additional copies of this publication? It would be sincerely appreciated if you would forward these to the attention of the writer. Thank you.

Respectfully,

MC CULLOCH MOTORS CORPORATION

N. A. Lamberti (g)

N. A. Lamberti
Purchasing Agent

mbg

The cost to our government for operation of their present military procurement organizations represents a large and growing segment of annual appropriation requirements. We believe that this stems from the numerous, complex and cumbersome procurement regulations and practices which have been developed, and under which the various military services and the contractor are forced to operate to produce defense products required to maintain our combat-readiness at all times.

If the military services are given more freedom of action in the use of funds appropriated to them and are held accountable for the end result of such use, we believe that the cost of government procurement activities, as well as contractor costs incurred as a result of these activities, can be greatly reduced.

To comply with present procurement regulations and practices, government contracting personnel have been forced to resort to price negotiation techniques which discourage the interest of capable contractors in government business, delay the development and delivery of adequate weapons of high quality and reliability, and increase the cost to the taxpayer of vitally needed weapons.

In industry, a contractor's incentive for entering a particular new commercial field is that he can increase his profits by producing a better quality product for the same price as his competition, or a product of equal quality at a reduced cost to his customer.

This is not recognized when a contractor provides his development and manufacturing skills and his facilities and capital for government business. Improved quality and lower costs than his competition results only in less profits because of formalized procurement procedures and detailed analyses of costs, the disallowance of many normal costs of doing business and the almost rigid application of inadequate profit margins to what are considered allowable costs. This negotiating technique does not differentiate between the low-cost producer of high

quality products and the high-cost, inefficient producer of poor quality products. As a result, the low-cost producer has a negative incentive for doing business with the government. Under present negotiating methods, the more effort a contractor exerts to reduce costs, the less profit incentive he is awarded for his effort.

The military services have statutory authority to allow up to 15% profit before taxes on research and development work and 10% profit before taxes on production contracts of cost-plus-a-fixed-fee types. These statutory limits have effectively been further reduced by Armed Services Procurement Regulations and individual Service procurement instructions and policies to between 5% and 10% before taxes, or between 2½% and 5% after taxes. Under the Armed Services Procurement Act, no statutory prohibitions exist as to profits allowed under contract types other than cost-plus-a-fixed-fee.

Despite the authority available to the military services, we find that under present procurement policies and practices, the kind of cost analysis and negotiating methods intended for review of cost reimbursement type contracts has been extended to virtually all contract types, without adequate consideration of contractor risks and without recognition of the basic incentives for which a contractor is willing to take such risks.

More confidence, authority, freedom of action and responsibility should be placed upon the contracting officer and the contractor. The numerous reviews and counter-checks of their actions at successive levels of command are duplications of effort and should be sharply reduced. Prudent management, general competitive conditions and the use of sound judgment on the part of the contracting officer should be relied upon to reduce costs. Wider use should be made of firm fixed price and incentive type contracts, permitting substantial profit rewards for substantial cost reductions.

We are convinced that, in such an environment, the inefficient, high-cost, or poor quality producer will not long exist. We are also convinced that the use of sound business practices in procurement by the military services will enable a stronger aircraft industry to provide more and better products sooner and at lower cost for the defense of our country.

In concluding, we recommend that a new section of the Armed Services Procurement Regulations be written and used that encourages and gives management recognition via the profit route for efficiency, low cost, and high quality. You will note that the example quoted from the book, "Increased Production and Reduced Costs" definitely proves that increased quality will come with low costs. The illustrations on Page 77 demonstrate this fact.

The cost savings indicated by the machinability reports have been accepted by industry as reflected by the letters cited herein, and afford the opportunity for other military contractors to accomplish the efficiency and cost reductions which we have demonstrated can be done with our own funds. But government acceptance is lacking in that Armed Services Procurement Regulations do not provide for proper recognition of these benefits. Cost reductions will not materialize in the desired amount if the net result is a reduction in the already small amount of profit allowed on government contracts, precluding investment of funds needed for more efficient and modern machine tools and other facilities.

Also, Government agencies, buyers and negotiators should be discouraged from treating taxes as an item of profit in negotiating contracts. The attached reprint from the Hearst newspapers clearly and effectively describes the tax burden of the average American. The reduction of this tax burden is a good and sufficient reason for cost reduction.

Additional Contract Data

In 1955, I became interested in the expansion of our activities through the interchange of information with Daimler-Benz A.G. of Stuttgart, Germany, one of Europe's very large and successful automotive and Diesel engine manufacturing companies. I had in mind a three-cornered arrangement whereby Curtiss-Wright and Daimler-Benz would exchange information dealing with aircraft engines and Curtiss-Wright, Daimler-Benz, and Studebaker-Packard Corporation might work out an arrangement mutually satisfactory to all concerned in the automotive, truck and bus field.

As these talks progressed with Daimler-Benz, it was not surprising that Curtiss-Wright Corporation was approached to see whether such an arrangement could be enlarged, so that Curtiss-Wright Corporation with its capital and experience could assist in performing certain defense contracts held by Studebaker-Packard Corporation because that company lacked necessary management, working capital and facilities money, and was generally in financial difficulties. Curtiss-Wright Corporation heeded this request and devoted several months in trying to work out a plan to take over the Studebaker-Packard defense contracts, conserve large defense facilities, save Studebaker-Packard from bankruptcy, keep 30,000 people employed by Studebaker-Packard, its dealer organization and suppliers from losing their jobs, reassure a million Studebaker-Packard car owners that their automobiles still had good value, and give hope to 120,000 stockholders that their company had a fair chance of survival.

In the spring of 1956, I made a personal tour of inspection of the physical properties of Studebaker-Packard as follows:

Grand Boulevard Plant, Detroit, Michigan
Mt. Elliott Plant, Detroit, Michigan
Conner Plant, Detroit, Michigan
Utica Plant, Utica, Michigan
Studebaker Main Plant, South Bend, Indiana
Chippewa Plant, South Bend, Indiana

The Studebaker-Packard Corporation activities were scattered throughout 19 million square feet of floor space at the above locations. The automobile production required approximately 5 million square feet of floor space. It was decided to consolidate this at South Bend for

the maximum conservation of assets and to get the maximum reduction in operating costs. The important space, from the defense point of view, consisted of approximately 3,000,000 square feet of space, 1½ million located at Utica, Michigan in modern buildings, including 21 jet engine test cells, and approximately 1½ million square feet of floor space in a modern air conditioned plant known as the Chippewa plant at South Bend. At this plant there were also some 20 engine test cells. It was decided to move the entire defense production into these two modern plants with the test facilities described above, so as to give the Government the maximum benefit of low cost operation and efficiency.

Studebaker-Packard owned Aerophysics Development Corporation, Santa Barbara, California outright. The company, a talented organization, was working on the Dart missile under an Army Research and Development contract. Its operations were scattered throughout more than 21 locations in Santa Monica and Santa Barbara including a hotel, and it was not only highly inefficient but the company was under constant criticism by the Department of Defense because of the difficulty of maintaining security requirements. Aerophysics had started the construction of a new building in Santa Barbara to house its entire operation. Studebaker-Packard had agreed to put up the money for this construction. In the summer of 1956 the future of Aerophysics looked doomed because of the lack of capital to go forward.

Studebaker-Packard's J-47 engine production contract had been completed in the summer of 1955, and the Government was making substantial claims against the company arising out of this contract for a refund of $13,000,000. Studebaker-Packard was indebted to a syndicate of nineteen large banks and four insurance companies to the extent of approximately $55,000,000, and the company was losing money by the millions. By the middle of 1956, it had suffered a loss for the first half of 1956 of about $95,000,000, of which $35,000,000 was an operating loss. Studebaker-Packard was looking in every direction for $30,000,000 to $45,000,000 of new capital. In early March of 1956, Studebaker-Packard had talked with Curtiss-Wright about their difficulties but nothing came of these talks. After several months of study by Curtiss-Wright to find a way to preserve the Defense Department's mobilization base, Curtiss-Wright finally proposed to advance approximately $35,000,000 to Studebaker-Packard upon certain conditions which Curtiss-Wright believed necessary for the

rehabilitation of that company and the preservation of the business and the defense facilities. Curtiss-Wright proposed to do the following things:

(1) Form a wholly owned subsidiary with the necessary capital to carry out the defense part of the program, to be known as Utica-Bend Corporation.

(2) Have this subsidiary lease Studebaker-Packard's Utica and Chippewa defense plants for 12 years at a total rental of $25,000,000, to be paid in advance.

(3) Have this subsidiary take over all Studebaker-Packard's defense contracts except those that were about to run out.

(4) Have this subsidiary purchase from Studebaker-Packard its work in process and its non-obsolete inventory selected by Utica-Bend Corporation but not to exceed $8,000,000.

(5) Curtiss-Wright would purchase from Studebaker-Packard the capital stock of Aerophysics Development Corporation and pay Studebaker-Packard the amount of money put into that corporation by Studebaker-Packard, to wit, $1,800,000, to assume defense contracts and to complete the construction of its new building in Santa Barbara at Curtiss-Wright's expense.

(6) Curtiss-Wright would enter into an Advisory Management contract for a period of three years, under which it would advise Studebaker-Packard in all of its areas of operation.

(7) Studebaker-Packard under the agreement would grant Curtiss-Wright an option to purchase 5,000,000 shares of unissued common stock at $5 per share at any time within two years from November 2, 1956.

(8) All this provided it received the support of the Department of Defense in the amounts Curtiss-Wright required to maintain the defense facilities and to attain the successful and economical operation of these plants.

By this means, Curtiss-Wright would put approximately $35,000,000 of its own money into Studebaker-Packard thereby providing

it with needed working capital, relieve it of the burden of maintaining two large defense plants, take over its loss production contracts and provide it with experienced management.

The banks and insurance companies, on the basis of these proposals, agreed to extend their loans for a period of three years without any payments of principal in the meantime.

Throughout the negotiations with the Defense Department, Curtiss-Wright made it perfectly clear that to succeed in the above program and to justify it in committing itself to place $35,000,000 into Studebaker-Packard, a very large amount of new business was imperative. It was made equally clear by the Defense Department at the time that there was a very large requirement for the kind of procurement suitable for production in the Chippewa and Utica Plants.

All the negotiated agreements and letter contracts finally agreed upon were signed on or before the 6th of August, 1956. Utica-Bend was capitalized at $4,500,000 and Curtiss-Wright lent it an additional $25,000,000 which was turned over to Studebaker-Packard as rent for the two properties in question. Curtiss-Wright also agreed to furnish additional capital to Utica-Bend, up to the amount of $15,000,000.

The threat of legislative inquiries in the Studebaker-Packard program which have appeared in the newspapers from time to time have caused the branches of the Government to be so cautious in their dealing with us that it is becoming a burden.

In response to the Committee Chairman's request for data relative to certain military contracts received by Curtiss-Wright Corporation since the date of the Studebaker-Packard agreement, you are advised as follows:

1. The value of the contracts *assigned* to the Utica-Bend Corporation from the Studebaker-Packard Corporation amount to $63,649,000. Of this amount one contract was for 5,037 2½ ton trucks, with a value of $36,077,000, and the J-57 Ford Motor Company purchase orders, amounting to approximately $19,000,000, comprise the major items. The remaining $8,000,000 was made up of a large number of small contracts.

2. New defense contracts related in any way to the Studebaker-Packard negotiations have been received by Utica-Bend Corporation from various military services since August 6, 1956 in the amount of $95,138,878.

The details of these contracts are as follows:

(a) Contract DA-20-018-ORD-15755—5,047 2½ ton Army trucks.
Amount: $40,612,347.

(b) Contracts DA-20-018-ORD-14400 and 14401 — Production of Army Dart Missiles.
Amount: $19,852,881.

(c) Contract AF33(600)-33631 — Air Force Facilities Contract for the Production of J-57 Engine Components.
Amount: $12,000,000.
On this contract approximately $5,000,000 will be unexpended and returned to the Government.

(d) Contract NOBS73758 — Navy Diesel Engine Conversion Kits.
Amount: $4,895,919.20.
Contract NOBS73759 — Navy Diesel Engine Overhaul and Modification.
Amount: $7,202,407.73.

(e) The remaining 260-odd contracts that account for the balance of the $95,000,000 consist of spare parts for Navy Diesel engines, overhaul of Navy Diesel engines, Army truck spare parts, engineering services, overhaul of J-47 aircraft engine for the Air Force, etc.

(f) In addition to the direct military contracts mentioned above, approximately $20,000,000 in new additional sub-contracts for the production of J-57 engine parts was received from the Ford Motor Company.

1 and 2(a) Contract DA-20-018-ORD-14580—5,037 2½ ton Army trucks.

Contract DA-20-018-ORD-15755 — 5,047 2½ ton Army trucks.

The Army was about to award a contract for 5,037 2½ ton trucks to Studebaker-Packard Corporation. This contract had not

been placed because of Studebaker-Packard's financial difficulties. It was proposed by the Army that the contract for these trucks be awarded to Studebaker-Packard, but with a proviso that it would be assigned to Utica-Bend Corporation for performance and that Studebaker-Packard be a sub-contractor for the assembly only.

Accordingly, on August 30, 1956, this contract for the amount of $36,077,000 was awarded to Studebaker-Packard and on September 25, 1956, it was assigned to Utica-Bend. In addition to that, contract negotiations have been concluded for 5,047 additional trucks, the performance on the first 5,037 trucks having been eminently satisfactory to the Army according to all standards.

Curtiss-Wright recommended the removal of the 2½ ton truck line from the Chippewa plant to the Studebaker main plant at South Bend in order to bring costs in line and increase efficiency. This was finally deemed to be in the best interests of the Government, and a facilities contract in the amount of $750,000 was awarded to Utica-Bend to relocate the facilities. This move left the Chippewa plant wholly available for jet engine work. It became necessary to develop new sources of supply for certain of the major components of these trucks because previous Studebaker-Packard sources were unsatisfactory due to high cost, poor delivery performance and mediocre quality.

2(b) Contracts DA-20-018-ORD-14400 and 14401—Production of Army Dart Missiles.

On September 21, 1956, a letter contract was received by Utica-Bend from the Army which outlined a formal production contract for the Dart missile, which had been developed by Aerophysics Development Corporation. A definitive contract has now been received by Utica-Bend in the amount of $19,852,881.00.

2(c) Contract AF33(600)-33631 — Air Force Facilities Contract for the Production of J-57 Engine Components.

In the spring of 1956, Studebaker-Packard had undertaken the production of J-57 engine parts at the Grand Boulevard plant in Detroit under a sub-contract with Ford Motor Company, which held a prime contract with the Air Force in excess of $200,000,000.

Curtiss-Wright's study and analysis of the Studebaker-Packard operations under its various defense contracts disclosed that overhead

was being incurred at the rate of 2910% of direct labor and that direct labor utilization amounted to only 11% efficiency. Under these conditions, Studebaker-Packard was failing to meet required military schedules by a wide margin.

To salvage the production of parts under the J-57 program, Curtiss-Wright entered into a facilities contract with the Air Force to re-locate the Government owned machine tools and equipment in the modern air conditioned Chippewa Plant at South Bend. In addition to the Government owned machine tools and equipment, it was necessary for Curtiss-Wright to invest its own funds (approximately $800,000) in machine tools and equipment required to implement the Government owned items. These machine tools and other equipment were purchased for cash from Studebaker-Packard and were relocated at the Chippewa plant.

The Studebaker-Packard purchase orders from Ford were cancelled with the consent of all parties, and Curtiss-Wright entered into a new sub-contract with the Ford Motor Company and assumed the production and tooling responsibilities that Studebaker-Packard previously had with Ford. Curtiss-Wright also purchased from Studebaker-Packard all utilizable production materials and inventories for cash. The new contract was entered into on a CPFF basis until the end of 1957, after which time all new procurement will be on a fixed price basis.

In October, 1956, the re-location of Government and Curtiss-Wright owned facilities was started. There were over 1100 major machine tools and a mass of related equipment and raw materials, parts in process and tooling to be disassembled, crated and transported approximately 200 miles to South Bend and reassembled.

Despite the obstacles involved, machine tools were in place and production resumed in January 1957.

The Defense Department and the Air Force had advised Curtiss-Wright during the summer of 1956, that the production required from the J-57 facilities in the Chippewa plant would approximate $60,000,000 per year for 3 years, in accordance with the planning schedules then in being.

A letter from Mr. John Dykstra, Vice President, Ford Motor Company, to Mr. Roy T. Hurley, President, Curtiss-Wright Corporation, dated August 3, 1956, is quoted in part as follows:

> "We have been informed by the Air Force that it will order from us certain J-57 engines during its fiscal year 1957, in addition to those engines presently on order, and it is our intention in such event to negotiate with you during that period purchase orders for parts for such engines in the amount of approximately $34,000,000. As requested by the Air Force, where these purchase orders provide for deliveries during the period from August 1, 1956 through December 31, 1957, they will be on a cost-plus-a-fixed-fee basis. However, any purchase orders which provide for deliveries subsequent to December 31, 1957, will be on the fixed-price basis hereinafter stated.
>
> Subject to receipt of orders from the Air Force for J-57 engines in accordance with its plans as disclosed to us, we intend to negotiate with Utica-Bend Corporation additional purchase orders for J-57 parts on the fixed-price basis hereinafter stated in the approximate amount of $108,000,000 during Air Force fiscal years 1958 and 1959, subject to the possible rearrangement of Air Force prime contracting and subcontracting source patterns for the J-57 program."

We have now been advised by the Ford Motor Company and the Air Force that the J-57 parts requirements have been drastically reduced, and very little additional parts will be required from the Utica-Bend plant as a result of the Air Force phaseout of Ford as a J-57 engine builder. We expect the Defense Department to provide other business to replace the lost J-57 production.

2(d) Contract NOBS73758 — Navy Diesel Engine Conversion Kits and Contract NOBS73759 — Navy Diesel Engine Overhaul and Modification.

The Navy was using approximately 500 Diesel engines which had been manufactured by Studebaker-Packard Corporation under a Navy contract. These engines were in use in mine sweepers. This Packard Diesel engine was the most advanced in its class in the United States.

The Navy required certain changes and modifications to these engines as a result of their operating experience. Since it was questionable how much longer Studebaker-Packard could continue in business, the Navy was interested in Utica-Bend taking over its contracts with Studebaker-Packard for the modernization of its engines and for the manufacture of spare parts. The Navy was also interested in Curtiss-Wright's pending agreement with Daimler-Benz relative to Utica-Bend Corporation's manufacturing and distribution of Daimler-Benz Diesel engines. These engines are the most advanced Diesel and multi-fuel engines in the world and would be made available for military as well as commercial application.

It was necessary to relocate the Navy owned facilities from the Grand Boulevard plant to Utica-Bend's Michigan plant. Curtiss-Wright invested its own funds and purchased from Studebaker-Packard the necessary additional equipment and machine tools to perform the Navy contracts.

2(e) The remaining 260-odd contracts that account for the balance of the $95,000,000.

Studebaker-Packard at Utica, Michigan had manufactured J-47 engines from 1951 through 1955 under a license from General Electric. Inasmuch as Studebaker-Packard had been one of the original manufacturers of this engine it was not unusual for the overhaul to be placed in the same plant. A contract was negotiated by Utica-Bend and the Air Force for the overhaul by Utica-Bend of 500 J-47 engines during the 1957 fiscal year. Furthermore, it activated a defense facility and created a second competitive source for the J-47 overhaul. It was required that Utica-Bend's overhaul schedule would increase from five engines a month in January, 1957, to 100 a month in June, 1957, and the program anticipated orders for the overhaul of 100 engines a month during the 1958-1959 fiscal years subject to satisfactory performance, availability of funds and competitive prices.

The Air Force in October of 1956 provided Utica-Bend with an amount not to exceed $1,300,000 for additional facilities required for the overhaul of these engines.

The first 500 engines are being completed in accordance with contract requirements and competitive bids are now in process of being prepared for more overhauls by Utica-Bend.

The Committee Chairman in this connection made the unwarranted statement, Page 71 of the Record, as follows:

"Mr. Hebert: 'Mr. Dykstra, don't you know as a matter of fact it cost the taxpayer $25 Million to switch that contract or part of it? . . .'

"Mr. Hebert: 'I said it cost the taxpayer $25 Million and if Mr. Gavin will be very patient during the development of this testimony he will find out exactly the figures'."

No such proof was ever offered nor could it be because the facts are as follows:

(1) The cost of plant rearrangement incurred by the Utica-Bend Corporation to provide for the establishment of the J-47 overhaul line was $474,000. This amount is included in the price of the engines. It was expressly understood, by mutual agreement between this company and the Air Force and by the contract provision, that no profit will be allocated to this plant rearrangement cost. Curtiss-Wright provided the plant space required to perform this contract with its own funds in accordance with its lease agreement with the Studebaker-Packard Corporation.

(2) The Air Force awarded the Utica-Bend Corporation Contract No. AF33(600)34105 for the acquisition of additional facilities required for the J-47 overhaul in the amount of $1,300,000 without profit to Curtiss-Wright Corporation. Of this amount only $876,000 has been committed and expended. To furnish the additional facilities and equipment not furnished by the Air Force under this contract, it was necessary that Curtiss-Wright invest $500,000 of its own funds.

The foregoing clearly records the entire facts and it is requested that the Committee take the proper action to correct the record. The sum of $25 Million bears no relationship to the J-47 overhaul contract whatsoever.

The Committee introduced into the record letter contract AF33(600)-33637 with a face value of $20,000,000. This contract was to cover facilities in support of ram jet engine testing at the Curtiss-Wright Research and Development center at Quehanna, Pennsylvania.

This contract resulted from a proposal made by Curtiss-Wright Corporation Engine Division on April 5, 1956. The reason for the proposal was the then-existent Air Force requirements for the development, test, and production of ram jet engines. It was an integral part of the program proposed by Curtiss-Wright Corporation and was necessary to support other phases of the program.

The Air Force has provided funds, in the amount of $249,403.40 under this contract, but no further expenditures have been authorized and the Air Force has advised, due to a change in requirements resulting from the cancellation of certain missile projects, no further funds will be released under this contract.

The Committee has introduced into the record a letter of intent from Brig. Gen. Harley S. Jones to the Wright Aeronautical Division of the Curtiss-Wright Corporation, dated July 20, 1956. The proposal to the Air Force from the Engine Division, from which this letter of intent originated, was dated April 5, 1956.

The Air Force, in accordance with this letter of intent, entered into a contract with Wright Aeronautical Division in the amount of $2,200,000. We have been advised by the Air Force that requirements no longer exist for this specific engine and, consequently, the possibilities of further contracting are remote.

The data contained in this booklet, and the attachments hereto, submitted to your Committee for the record concludes Curtiss-Wright's presentation.

Mr. HÉBERT. The committee will stand in recess until Monday at 10 o'clock.

Mr. COURTNEY. Monday at 10 o'clock.

(Whereupon, at 12:03 p. m., the subcommittee recessed, to reconvene at 10 a. m., Monday, July 29, 1957.)

AIRCRAFT ENGINES PRODUCTION COSTS AND PROFITS

WEDNESDAY, AUGUST 14, 1957

HOUSE OF REPRESENTATIVES,
HOUSE ARMED SERVICES COMMITTEE,
SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS,
Washington, D. C.

EXECUTIVE SESSION

The subcommittee met at 10 a. m. in executive session, Hon. F. Edward Hébert presiding with the following members of the subcommittee present: Leon H. Gavin, L. Mendel Rivers, Paul Cunningham, William H. Bates, Frank C. Osmers, Jr., George P. Miller.

By unanimous consent the subcommittee authorized the subcommittee proceedings No. 4, entitled "Replies to Questionnaires on Aircraft Engine Production Costs and Profits," being pages 701 through 1874 of the printed record of the subcommittee, be released for publication.

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